

A Study of the Negotiations of the European Agreements between the EU and Visegrad

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PREFACE

This thesis is a product of my interest of the European Union throughout my study. The historical events of 1989 created a unique historical situation in Europe. The relationship between the Western and Eastern Europe had to start at a basic level, while the Western European integration were at an extremely high level, compared to the rest of the world. The first serious attempt to reintegrate these two geographical areas was exemplified by the negotiation of the European Agreements in the period of 1990-1991. This thesis is an attempt to describe and analyze the negotiations and the outcome of the negotiations between the European Union and the Visegrad countries - Poland, Czechoslovakia and Hungary.

During my work I have received a lot of help by different people and institutions. Especially important is of course my advisor Professor Martin Sæter (NUPI), who has been extremely helpful and patient during this period. I also thank the Norwegian Atlantic Committee and its general-secretary Mr. Ellmann Ellingsen for giving me a «working scholarship» from November 1995 to January 1997. Although it has delayed my progress during my writing, it has definitely enriched both the content of this thesis and the author.

Another important event has been my scholarship in Hungary, at the «Europa Institut» from June to August 1996. I am very grateful for the help from H.E. Ambassador Arpad Hargita and his wife Agnes. They helped opening doors for me during my stay in Budapest. Especially the interviews with Agnes Hargita from the Foreign Department, and Sandor Meisel, World Economy Institute has been used in this thesis.

Further, I will thank Gregory Rezar and Vebjørn Dysvik for their important contribution in the late phase of this thesis. Both the language and the substance of this thesis has been improved by their help.

Most important, I will thank Kirsten for her contribution, patience and helpful attitude during this long process with writing.

At last, it is important to emphasize that the author is responsible for all parts of this thesis.

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List of Abbreviations

<i>AC</i>	Associating Countries
<i>AD</i>	Anti-Dumping
<i>CEEC</i>	Central and East European Countries
<i>CFSP</i>	Common Foreign and Security Policy
<i>CCP</i>	Common Commercial Policy
<i>CCT</i>	Common Commercial Tariffs
<i>CoCom</i>	Coordinating Committee of Mutual Export
<i>COMECON</i>	Council of Mutual Economic Assistance
<i>CMEA</i>	Council of Mutual Economic Assistance
<i>CEFTA</i>	Central European Free Trade Area
<i>EA</i>	European Agreements
<i>EBRD</i>	European Bank of Reconstruction and Development
<i>EEA</i>	European Economic Area
<i>EFTA</i>	European Free Trade Area
<i>EU</i>	European Union
<i>ECU</i>	European Currency Unit
<i>EPC</i>	European Political Cooperation
<i>GATT</i>	General Agreement on Trade and Tariffs
<i>GNP</i>	Gross National Product
<i>GSP</i>	General System of Preferences
<i>IPE</i>	International Political Economy
<i>LI</i>	Liberal Intergovernmentalism
<i>MFN</i>	Most Favoured Nations
<i>NAFTA</i>	North American Free Trade Association
<i>NATO</i>	North Atlantic Treaty Organization
<i>PHARE</i>	Polish Hungarian Aid Restructuring Economies
<i>QR</i>	Quantitative Restrictions
<i>STE</i>	State Trading Economies
<i>TEU</i>	Treaty of European Union
<i>WP</i>	Warsaw Pact
<i>WTO</i>	World Trade Organization

Chapter 1.0 Introduction.

«From Iron Curtain to Silver Curtain»

The autumn revolutions of 1989 came as a surprise to most of the political elite in the Western world. The numerous political advisors and consultants in various Western research institutions left the decision makers unprepared for the events. The disintegration of Eastern Europe created a challenge that had to be answered by Western Europe. There was a vacuum that had to be filled given the low level of contact before 1989. The dramatic change that had to occur makes this time period and issue field very exciting for social science. The erosion of the Soviet-built regimes created high expectations in the East about the possibility of quickly re-joining the stability and security of the Western zone. This integration was necessary in order to stabilize further development in the Eastern zone. However the perception of the events, and their consequences for future development have been radically different on the other side of the Iron Curtain. The challenges were met with astonishingly muted enthusiasm among the Western European political elite. The initial hopes in the East soon gave way to growing disillusionment and disenchantment among the political elite and the general public in Eastern Europe. It became clear that the «community of values» emphasized by Western politicians during the cold war was mainly rhetoric. This came as a surprise since the concerned rhetoric of the previous decades had sounded highly concerned, but may not be so surprising if one looks closer at the Western countries and their expected preferences toward an integration with Eastern Europe.

1.1 Question Asked

In 1990 and 1991, the EU¹ and several Central European countries negotiated association agreements which regulated trade between the areas. These agreements are known under the name «European Agreements» (EA), and must be viewed as the first serious attempt to integrate Western and Eastern Europe after the cold war. The EAs have been criticized for being restrictive toward the Visegrad countries, regarding their ambition of free trade, and their accession to the EU. Hence my goal will be: To seek an understanding of the negotiation and outcome of the EAs in order to determine if such criticism was warranted. In order to reach this goal we must first to gain an understanding of the forces that influenced these negotiations.

This thesis is a case study of the negotiations of the European Agreements between Visegrad and the EU in 1990-91. Its purpose is to shed light on why the EU trade policy, as an answer to the challenge from the East, became as hesitant as it did. Hence one needs to shed light upon the forces that formed the process in order to understand the outcome of the negotiations.

In order to reach this goal I will argue that we need theories of preference formation to get a better understanding of the major determinants behind state preferences in the European Union. This must be combined with an institutional understanding of the Common Commercial Policy (CCP) of The EU which influences the organizing of EU trade policy toward third countries. All the EU countries, for example, had to adapt to the new situation given the major changes in the political systems in Europe. Even more fascinating is that all of these countries had to create a common position toward this new situation, due to the CCP.

¹Before the Maastricht treaty, the correct name was the European Community, but I use European Union throughout for reasons of simplicity.

My line of argument will be that the EU members were confronted at the same time with the same phenomena. However given their different economic and political structure, they had different preferences toward the trade integration. Hence, we need theories that give an understanding of the EU as a trade regime, and an understanding of the preference formation in the EU on the question of trade. This can be done with an eclectic theoretical approach in the analysis. Thus, this thesis will be defined as an eclectic case study, with the purpose of revealing the decisive factors behind the outcome of the negotiations of the EAs.

1.1.1 Elaboration of Question

This thesis is the study of a regime's trade policy toward third countries. The regime is the EU, and its unique character indicates the need for a special approach. I propose that Liberal Intergovernmentalism (LI) can give us the proper understanding of the EU, but at the same time it needs amendments in order to be a fruitful approach. The thesis has two hypotheses connected to the theoretical approach; one that LI is the best theoretical approach toward this field of study, and two, that it must include a security preference understanding in order to give a proper picture of the forces that influence the outcome of EU trade policy toward Visegrad.

Hypothesis 1: The first hypothesis applies Liberal Intergovernmentalism, which, is an integration theory originally used to explain the development of EU through intergovernmental bargains.² It is a general theory and its Liberal preference understanding combined with its bargaining understanding is fruitful to adopt to this case study.

Hypothesis 2: The LI theory must be combined with a security policy analysis in order to understand the political influence of EU trade policy.

Henceforth this thesis can be described as a theory confirming case study. With this choice of a theoretical approach, I expect to reveal the major factors that determined the outcome of the EA negotiations. Taken from this theoretical choice the goal of this thesis is to conduct a case study of the negotiations with the use of an adapted LI in order to explain the outcome of the negotiations.

1.1.2 The Proposed Theoretical Approach

The proposed theoretical approach is Moravcsik's Liberal Intergovernmentalism which was presented in 1993. LI is a general theory proposed to be used for explaining the nature of the intergovernmental bargains within the EU. My use of it is slightly different. I argue that it can be used as an analytical approach to understand the formation of the EAs between Visegrad and the EU.

I legitimize my use of the theory by the fact that formal institutional development, as a consequence of intergovernmental bargains, and the establishment of trade agreements are quite analogous in their decision making procedures. The only major difference is the addition of an external negotiation between the EU and third parties.³

Establishing a common trade policy is very mobilizing in the EU states. This is represented by the Liberal preference analysis in LI. This preference formation analysis in LI could easily be adopted from institutional

² Moravcsik 1993:473.

³ I reduce the meaning of trade policy to the establishment of general trade relations and not the more day to day based consultations that are made after the overall agreements have been made

intergovernmental bargains to the question of trade. While the regime theory in LI is transferable without any changes except for the addition of a weak external actor.

These arguments are central to the fruitfulness of this study of EU trade policy, primarily because this study will include discussions of what types of theoretical dimensions are needed in the study of EU trade policy. Clearly, traditional trade policy analysis lacks the understanding of the challenges that the institutionalization of a common trade policy creates for an analysis of the process behind the agreements. While the traditional Realist approach lacks the understanding of internal forces in the preference formation toward negotiations of trade agreements and of the influence of the regime in constraining the state strategies and promoting cooperation. Under such circumstances I argue that Liberal Intergovernmentalism as a theoretical tool can be used to gain an understanding of this process. LI is a combination of a Liberal preference theory and a Regime theory used on the same phenomena. However, these two dimensions are not enough to get a proper understanding of the process of policy formation. I propose three theoretical dimensions in order to reveal the major determinants behind the policy. Three because in addition to a Liberal preference theory and regime theory, I will argue for the need of including security policy in the preference formation analysis. In other words, I will elaborate LI somewhat in order to adapt it to the study of the EA negotiations. This will be done by the use of Realism and a widened security definition.

1.1.3 Levels of Analysis

The use of LI indicates that the analytical approach will include different levels of analysis, and include factors both external and internal seen from the EU. My goal is to highlight these factors, in order to seek an understanding of the contexts in which these European Agreements were made, and to try to understand their influence on the process leading to the EAs. Modern theories of International Political Economy (IPE) suggest a number of empirical, theoretical and philosophical reasons to treat the need for a multicausal explanation as a general principle. «Empirically robust explanations of international policy co-ordination are likely to incorporate at a minimum, theories of both national preference formation and intergovernmental negotiations, each grounded in explicit assumptions about actor preferences, constraints and choices.»⁴ As the reader will experience, the model used in this thesis ranges from sub-national to national and international levels of analysis. This is necessary in order to grasp the nature of the EU as a trade regime, and to understand the negotiation and outcome of the EAs. The need for the different levels of analysis in my explanation of EU trade policy is one of my most important arguments for advocating LI as a tool for analyzing EU trade policy.

1.1.4 Delimitation of the Discussion

This thesis will not be a detailed overview of the internal or external negotiations. That would be an impossible task to undertake for a limited thesis of this type. In addition to the quantitative limitation, it would be impossible to gain the information necessary for such an analysis. The discussion will be made in a macro-oriented manner. The theory is used to illustrate factors, both internal and external to the EU, that influenced the process that determined the character of the EAs. At the same time, LI will be expanded in order to grasp the security preferences that have influenced the negotiations of the EAs. Hence the theoretical approach is of an eclectic character specific to this case. The final understanding from this thesis must be seen in connection with the special environment that surrounds the decision makers in this case, if generalizations to other cases should be attempted.

The research area is the European Agreements between EU and Visegrad countries. The focus is on the EU trade policy; primarily the regulation of EU trade toward Visegrad and vice versa. The current framework for EU trade

⁴Moravcsik 1993:480.

policies towards the reform countries of Eastern Europe is defined by the Europe Agreements⁵ and the conclusions of the European Council meeting in Copenhagen (21-22 June 1993). Formally the EAs did not go into effect before they were ratified in 1994 and 1995. The period preceding the EAs was organized through «interim agreements» between the same countries. However these interim agreements are analogous to the trade conditions in the European Agreements, and secured free trade from 1 February 1992. These agreements were negotiated in the period between December 1990 and December 1991. They were the first major trade agreements made after 1989, and had ambitions of creating a free trade area between the EU and Visegrad. The EAs are so wide in scope that I have to concentrate on the main intention behind them. That is the economic (and political) rapprochement between Eastern and Western Europe, in order to create a free trade area.⁶ As Pinder describes it, «The backbone of each agreement is the establishment of a free trade area between the EU and each associate.» More precisely it will be the goods trade policy from the EU toward Visegrad that will be investigated. The limitations to EU trade policy in goods are made for several reasons. First, trade policy is one of the few sectors of foreign policy that is coordinated by the EU. Second, this field was also the main focus of both the EU and the Visegrad countries in their organizing of the new relationship. It is also a natural consequence of the fact that the EU, at that time, was mainly an economic regime. The EU's second and third pillar did not exist before the end of 1991.

Given the large scope of this thesis, there has to be greater delimitation in order to create a concentrated case for the analytical discussion. As mentioned earlier, I will narrow the focus to the Visegrad countries which are, Hungary, Poland and Czechoslovakia.⁷ This can be done without violating the understanding of East-West trade because the European Agreements were conducted quite similarly for all of the Visegrad countries, and because the results of the negotiations with these countries functions as a «blueprint» for negotiations with the other Eastern European countries getting an EA.⁸ Thus, the negotiations made with the Visegrad countries determined the agreements made with the other Associated Countries (AC) in Eastern Europe.⁹

1.2 Type of Case Study

How can the EAs be characterized, is my starting position and why is my main question. This leads me to three possible types of surveys according to Yin: experiment, history or case study.¹⁰ Yin argues that a case study is advantageous «when a how and why question is being asked about a contemporary set of events, over which the investigator has little or no control».¹¹

⁵The EAs are considered in combination with the earlier interim agreements, which were of the same nature.

⁶ Portes 1994:19.

⁷ Czechoslovakia was divided into the Czech-Republic and Slovakia in 1992, but this will have no consequences for my thesis, since I end my analysis in December 1991.

⁸ This view is also supported by Portes 1994:18.

⁹ There is a major difference in the association agreements, and that is the difference between the partnership treaties and the European Agreements. The latter are agreements with an intention of preparation of membership in the EU. The new USSR states except from the Baltic states have only a partnership treaty.

¹⁰ Yin. 1989:18.

¹¹ Yin 1989:20.

This study may be seen as a case study for different reasons. First of all the research question is of a «how» and «why» character indicating an explanatory approach; however, there is no opportunity to control the behavioral events. The first method, experiment, is impossible given the lack of control in social science.

The two others are possible, but they divide in two areas. Case study opens for direct observation and systematic interviews. This is theoretically possible in my thesis, but not necessarily always realistically possible. Direct observation was not a feasible option for me. However, I have followed the development through secondary sources, such as newspapers, radio, and television while and after the events occurred. The problem was that I did not, at that time, know the future need for empirical sources. These secondary sources are, of course, available to a certain degree from libraries. In praxis much of my method will be historic, but sufficient resources made interviews possible, thus making it a specific case study. The freshness of the events I investigated made it possible to use systematic interviews. This opportunity is the major difference between the case study and the historical approach. The interviews in particular define this thesis as a case study.

1.2.1 Historical vs. Theoretical Case Study

There are other considerations making the term historical analysis irrelevant for this study. One consideration in particular is the use of theories which can simplify complex historical events, and make it easier to draw conclusions and lessons for other similar events, without being so dependent upon time as determining factor.¹² Social science and history differ when it comes to the possibility of creating a theoretical wisdom that can be used to analyze other events occurring separately in time or space from the original event. The belief in the uniqueness of the historical events is referred to as an idiosyncratic view, and is in traditional opposition to the social science approach in this thesis. Without claiming to be a positivist, I will postulate that theory does increase the understanding of single events and increases the ability to learn from the history in such a way that one could use other historical illustrations following certain patterns in order to understand those events we are facing in our research. «International politics», like any other social phenomenon, cannot be studied empirically until a prior theoretical exercise has been carried out. Such a theoretical exercise involves creating a model of the international system which incorporates assumptions about the main actors, and the relationships that exist between them. This model then suggests empirical questions. The answers to which may be fed back into the model, and allow it to be modified or extended. But although the relationship between the model and study of the empirical phenomenon is interactive, the theoretical exercise must always come first. Without a model of the international system it is impossible even to define what constitutes the field of study. «An empiricist approach amounts to no more than the adoption of somebody else's theoretical model without the researcher being aware of it».¹³ Hence we need to elaborate the theoretical approach in this case study.

This argument boils down to the point that I will use a general theory as a tool to understand the logic behind the association agreements between the EU and Visegrad. This theory (Liberal Intergovernmentalism) is used on other historical events, rather similarly, yet still different from my use of it in this thesis. I am convinced that it is fruitful to use this integration theory (LI) in order to understand the logic of EU trade policy making. There will be changes from the original theory, partly because of the slightly different empirical events it will be used on, but also because I regard the theory as too minimalist to be used on EU trade policy. This will be elaborated more thoroughly in the theory section.

¹² This consideration is built on the debate between social science and the idiosyncratic view of history.

¹³ George 1991:20.

1.2.2 Type of Case Study

An embedded study is a case study with more than one unit of analysis, as when one within a single case gives attention to a subunit or subunits.¹⁴ Embedded case study involves more than one unit of analysis. The use of different levels of analysis, in order to understand the logic of EU decision making makes this an embedded case study. In order to understand an EU trade policy, we must understand the sub-units of the EU, their preferences and strategies made, and the nature of the bargaining within the EU.

This thesis concentrates on following subunits: the national producer groups, the governmental decision makers and the supranational elements that can have an influence on the formation of EU trade policy, especially the EU Commission. The original level of analysis is supranational (the EU as an organization with a trade policy). The two former levels of analysis form the sub-units of this case. However, this thesis argues that the national and sub-national levels of analysis are the most important in order to understand the outcome, given the intergovernmental structure in EU decision making.

A traditional pitfall is when one cannot bring the analysis back to the appropriate level in order to follow up the research question of the thesis. To avoid this pitfall in this thesis, I must bring back the empirical observations and investigations of the subunits at the proper level of analysis, namely the EU-level of analysis, when the conclusions are drawn.

1.2.3 Advantages and Disadvantages of a Case Study

The great advantage of a case study is that by focusing on a single case, the case can be intensively examined even when the research resources at the investigators disposal are relatively limited.¹⁵ There is a scientific problem with the case study, and that is the problem of generalizing. Lijphart says «A single case can constitute neither the basis for a valid generalization nor the ground for disproving an established generalization».¹⁶ However, Lijphart describes case studies as indirectly important in the contribution to the establishment of general propositions and, thus, to theory building in political science. Yin is more positive to the use of a case study as a critical test of existing theory.¹⁷ Further, he emphasizes that a case study is generalizable to theoretical propositions, «the goal should be to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)».¹⁸ My effort is a possible expansion of an existing theory, Moravcsik's Liberal Intergovernmentalism, in the field of trade policy. Thus in order to have an explanatory case, I will use time and space in the presentation of Liberal Intergovernmentalism and my propositions to expand the theory. This will then be used analytically on the question of the negotiation of the EAs.

1.2.4 Elaboration of the Research Question

Ordinary questions with case studies are: who, what, where, how and why? The «who» question in this thesis is the European Union. The who question gives the appropriate level of analysis. Still, this is an embedded case study, which includes analysis in subunits in order to get the best understanding of policy making at the EU level.

The «what» question is the field of study, which is EU trade policy exemplified by the negotiations of an association agreement. A central criteria to attain an exemplary case study is to have a clear distinction between the phenomena studied and its context.¹⁹ It is important to define the borders of the case study; in other words, a proper definition of EU trade policy. This is more difficult than a definition of trade policy from one single state.

¹⁴ Yin 1989:49

¹⁵ Lijphart 1971:691.

¹⁶ Lijphart 1971:691.

¹⁷ Yin 1989:50.

¹⁸ Yin 1989:21.

¹⁹ Yin (1989:147), about the completeness of a case study.

The EU has within its mandate special fields that go further than those which a traditional trade policy would include, yet at the same time it also lacks certain areas that are included in a national trade policy. This forces me to use some effort to describe EU trade policy in chapter two.

«Where» does this take place? It takes place in Central Europe, or more precisely, the Visegrad states, which got their name from a meeting in 1991,²⁰ in order to coordinate their activity with the integration questions after the disintegration of the Eastern political structure.

«How» is this policy implemented? It is implemented through the European Agreements which is the name of the association agreements negotiated with Visegrad countries in 1990-1991.

«Why» did it take the form which it did? That is the major question in this thesis, and the answer I propose can be explained with in three dimensions: security, economy and institutional. These dimensions are picked on the basis of Liberal Intergovernmentalism and the assumptions I make on the basis of my own and other sources brought in to this thesis. These dimensions will be analyzed in three different chapters and brought together in the conclusion.

1.3 The Model

The thesis is centered around the output of a process. In this process, three different hypotheses are included concerning the influential factors behind the EAs. These can be viewed as independent or intermediate variables. The process includes different levels of analysis. The whole concept becomes a model when the partial results from different analytical levels are connected to a whole.

This thesis does not have an explicit causal analysis as a goal. The causal illustration is made in order to clear the mind for the writer and the readers. The relationship is made on my assumptions of the relationship between EU trade policy and the dimensions I use in order to explain this policy. I do postulate a causal relationship, but it is impossible to use a quantitative approach in order to value the strength of the relationship. Though some elements of the model could be elaborated with the terminology of the causal analysis. The model drawn in figure 1.1 is a specific model where the independent background variable is the events of 1989 which were the result of a loosening of the Soviet ties with East Central Europe. This initiated a major change in different fields of policy. Hence there are two intermediate variables that are responsible for the change in EU trade policy after 1989. I feel that it is necessary to separate these intermediate variables in order to get a proper picture of the development. The main reasons are that they are separable and that they influence the trade policy in different directions. There is a clear causal priority from right to left in the model. However, I have made no attempts to describe the relationship between the intermediate variables, which, of course, could be relevant to the analysis, but at the same time it is difficult to detect due to the control problem.²¹

²⁰ Sundström 1994:42. The Visegrad summit took place in the Hungarian town Visegrad.

²¹ Control problem, see p. 16.

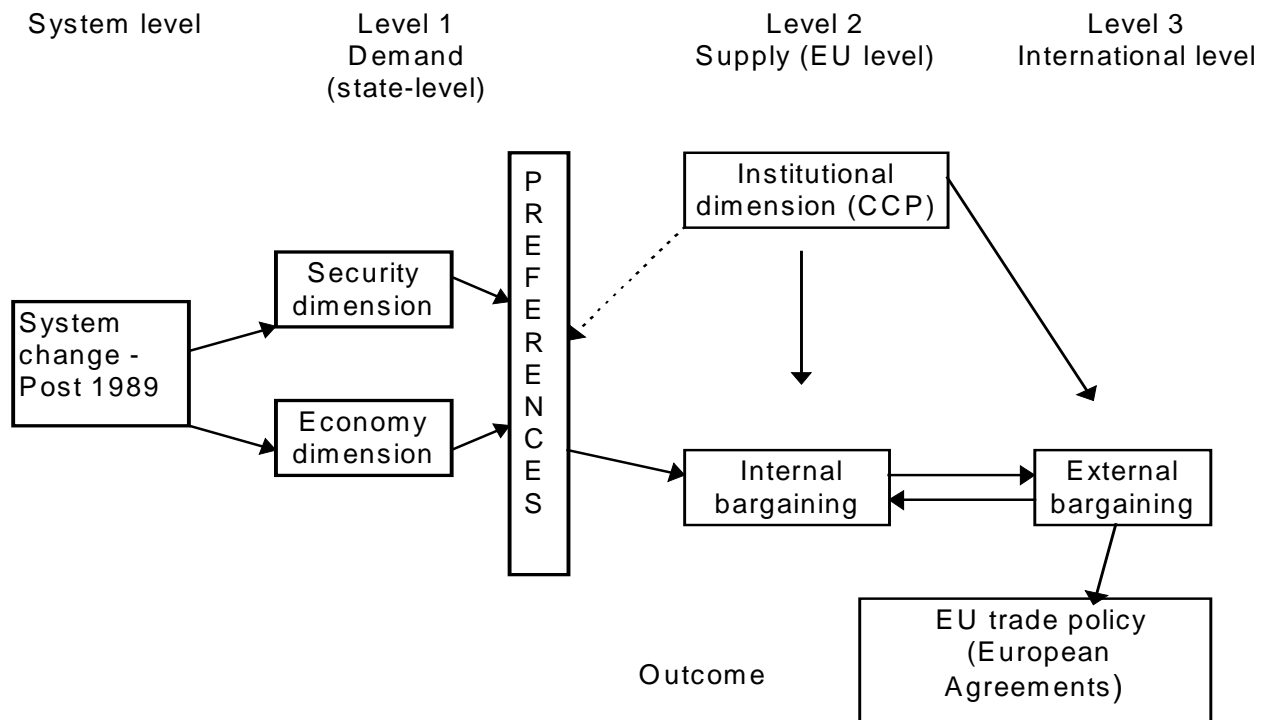


Figure A. An eclectic model of the EAs

1.3.1 Variables

Independent Variables:

Background variables:

System change after 1989 - This broke the bipolar system that had kept the two geographical areas divided, and free trade as unrealistic until 1989.

Institutional dimension - This is the existing CCP in the EU which influences the strategies of the actors in the negotiation both externally and internally in order to find a «win-set».

Intermediate variables:

Security dimension - This is any perceived threat that influences the preferences toward a trade agreement because of the correlation between economy and security.

Economy dimension - This is the economic structure, which influences the preferences toward a trade agreement.

Dependent variable:

The outcome of the European Agreements negotiations between the EU and Visegrad.

1.4 General Methodological Problems

First, the question of generalization. As mentioned earlier there is a traditional argument that case studies have a scientific problem with generalization. This debate is very traditional, and there is no point in elaborating this further. I will support my approach on Yin's distinction between analytical and statistical generalization. While analytic generalization concerns inference about a population from the basis of empirical data to theory, statistical generalization comprises inference about a population on the basis of empirical data collected from a sample. Analytical generalization is appropriate for case studies. Whereas the critique is based on a case study's ability to produce statistical generalizations which, of course is very poor. «Cases are not sampling units.»²²

Second is the control problem. One must be aware of it, but there is little to do about it. Since I have no possibility of isolating the contemporary events from the influence of other variables, there is a control problem in this thesis. Furthermore it is also difficult to divorce the independent variables from each other in order to evaluate their relative explanatory strength. The control problem looms over all case studies, rendering isolation and measurement of specific causal relations difficult. However, the impossible task of experiment, and the inappropriateness of statistical method in this case, makes this problem inevitable. This is a general problem in social science, and the most sensible way to treat this problem is to be careful with the conclusions taken.

Third is the nature of the subject chosen. Is the EU trade policy consistent? This is a field covered by the discussion in chapter two.

Fourth the question of secondary literature and available data. Case study is an intensive study, where the demands for structured data collection are less than with an extensive approach.²³ Data are mainly based on other scientists that have described and analyzed the events (secondary). Interviews of primary sources in Hungary have strengthened this part of the methodological considerations. The use of sources brings us directly to the question of reliability.

Openness is the key word concerning reliability. Sources and problems must be introduced as complete as possible, but it can hardly be done 100%. A special important source is a complete investigation of «The Economist» 1990 and 1991 in order to reveal the main news from the negotiations, the background of the negotiations, and the actors involved in these negotiations. The secondary literature is presented in footnotes throughout the thesis. The same procedure is followed with the statistical material.

Several interviews have been made with Visegrad representatives in the negotiations. This was made in a concentrated time period during a three months scholarship in Hungary during 1996. The results of these interviews are presented at the appropriate places in the thesis. A complete presentation would be out of proportion due to the quantitative amount of the interviews.

Validity is achieved by operationalization and reliability. The question is what is measured? In my case it is the factors behind the EU trade policy (security, economy and institutionalism). Economy will be operationalized with the economic structure of the EU member states. This will be compared with the relevant economic environment which in this case is mainly the economic structures of the Visegrad countries. From these structures one can describe the sensitivity of certain economies in the EU, concerning trade with the Visegrad (Chapter. 4). Security is connected to the types of perceived threats and the distance to these types of threats (Chapter 6).

²² Yin 1989:38. Analytical generalization instead of statistical generalization is central to avoid criticism. See Yin (38-44).

²³ Hellevik 1990:118-9.

Institutional effects are operationalized through the constraints of strategies it puts on the actors (Chapter 5). All of these operationalizations will be elaborated further in the analysis chapters 4, 5 and 6. These chapters depict my operationalized variables compared to the theoretical variables presented later and it will describe the total validity.

The external validity, are those generalizations which I can make from the phenomena. I have earlier argued for a unique historical combination. This indicates a problem with a generalization. Although, I have chosen only a case study of EU trade policy. The EU has similar agreements with other states and this indicates that the external validity connected to EU trade policy in other fields may be high. This makes generalizations possible in the conclusion. However, this must always be done with an understanding of the unique empirical context of this case.

1.5 Chapter Information

Chapter 2 presents a discussion of the nature of the EU and the EAs. The primary focus is on the EU's trade policy (CCP). This description of the EU is given in order to convince the reader of the need for a theoretical understanding of EU when we analyze EU trade policy, such an elaboration of the nature of the EU is also needed to legitimize the theoretical choice of LI. In addition, the decision making structure presented in LI is analogous to EU decision making structure in the external trade agreements in CCP.

Chapter 3 presents different traditional approaches to the study of trade policy. First presented are the traditional economic approaches (Orthodox and Mercantilism). What these approaches can or cannot give us is described. Then the school of IPE is presented as an eclectic approach that has the elements from both the economic and the political domain. I investigate which directions we can find in IPE that are useful to a study of the negotiations of the EAs. As a consequence of the discussion in chapter 2, the theories with an EU specific understanding is in focus. Hence there will be a presentation of Liberal Intergovernmentalism as being the best choice.

Chapter 4 discusses the use of the preference formation analysis that LI proposes. This is done with empirical data from the EU and Visegrad states that is relevant to the question asked. The conclusion will be that EU preferences diverge dependent upon the economic structure in the EU countries. The Southern countries are more negative due to their economic structure which is more similar and competing with Visegrad than the central and Northern countries.

Chapter 5 focuses on the preferences and their intensity within the intergovernmental bargaining within the EU and between the EU and Visegrad. The outcome of these negotiations will depend on intensity of the preferences, capabilities and strategies taken. The strategies available in CCP are fewer than in the question of institutional development bargaining, which LI is meant to analyze. Hence the influence of the regime on strategies is proven. Although, the external actor also increases the strategies available with the possibility of external compensations. Even this part of LI is fruitful in the study of the EA negotiations, and the discussion is backed with empirical data from the negotiations both external and internal to the EU. The widening to include an external bargaining functions since the power asymmetry makes the external bargaining secondary to the internal negotiations, and because the external actors were regime takers, who did not question the rules of the negotiations. The results indicate that the institutional procedure in CCP strengthens the negative countries compared to the positive countries. Thus, the win-set must be made with compensations either from external or internal sources.

Persuasion and issue-linkage is widely used. However, due to the power asymmetry and the fact that Visegrad were regime takers, they had to pay for most of the compensations in order to find a win-set.

Chapter 6 presents a modification of LI in order to adapt it to the question asked. There is a need for a political analysis of the preference formation in addition to the economic analysis that stems from the liberal nature of LI. Hence vital political preferences that could influence the economic preferences taken in the EU states are presented. These preferences are especially strong in the question of security. Both classical security preferences and a widened understanding of security are relevant subjects of analysis. The preferences of the EU as a regime are also presented as a factor that could influence the state preferences in the negotiation of the EAs between Visegrad and the EU. Hence, the argument is that LI needs to be expanded to include a more general political preference analysis. This analysis indicates that the question of security did matter in the negotiations. Preferences were influenced by these questions, especially concerning the coup in Moscow in august 1991. The analysis also indicates that these preferences had the same geographical structure as the economic preferences. The Southern countries were less influenced than the Northern in the question of security. Hence, the divergent structure from the economic preference analysis was reinforced in the question of security. The question of the nature of the EU in the future is also presented as a potential preference that influenced the negotiation through state preferences.

Chapter 7 summarizes the discussion and connects it with the question asked in chapter 1. The goal is to create an understanding of the forces behind the outcome of the negotiations. The theoretical approach is also summarized concerning the fruitfulness of the analysis, but the main intention is the understanding of the outcome of the negotiations; the nature of the EAs.

Chapter 2.0 Background

«Apart from war, trade is the most important international activity of a state.»

*Spaulding Jr.*²⁴

This chapter will present the historical background of the negotiations. Then it will discuss some central issues concerning the nature of the EU, the EU's Common Commercial Policy (CCP) and the EU's ability to pursue a trade policy. The idea is to give the reader the proper understanding of the empirical and technical background of the negotiations of the EAs between the Visegrad countries and the EU.

2.1 Historical Background

Trade policy is an established field of study, also when it comes to East-West relations in Europe. The first central time period is from the nineteenth century to World War I, which is characterized by the proliferation of industrialization and its ensuing trade.²⁵ The second period was the intermediate war period with its strong mercantilist emphasis, given the strong political competition between the newly independent countries and the crisis in the world economy.²⁶ The period following World War II is characterized by the Iron Curtain, and an almost non-existing economic activity between the cold war zones. Again there was strong political control over trade, but this time it was combined with tendencies toward free trade within Western Europe, and the special trade pattern within Eastern Europe belonging to the communist ideology. Both systems were under the strong influence of the superpowers.²⁷ One central difference between the intermediate war period and the periods post-1945 was the development of different economically integrated areas in both Western and Eastern Europe. In the West the EC-EFTA arrangement dominated, with the former as the winner, and in the East there was the CMEA arrangement.²⁸ Hence the European Union had to live most of its life under the constraints or protection of a divided Europe. «There was a prosperity on the basis of exclusion and privilege rather than co-optation and inclusion».²⁹ In the conditions of Europe after 1989, the Union appeared as an island of stability and prosperity and as a source of both political and economic advancements for others. There was an increasing perception that the Union was an effective model for the management of capitalist societies, based roughly on a social market economy as opposed to the free market capitalism of the American (UK) model. This strengthened the idea that the EU model could be used to shape developments in the outside world, from the legal base of the treaties and their impact on growth and stability in Western Europe.³⁰

2.1.1 System Widening

During its three decades with a CCP, the EU has developed complex trade relations with its neighboring states, and at the same time has worked for a removal of the internal barriers to trade. This development has taken place within the framework of GATT, but is still seen by many as a threat toward the idea of free trade given its exclusive character toward third countries.³¹ Besides the GATT rounds, the best known EU external trade agreements are the LOME agreements, the GSP, and the EEA. The regulation of the economic area composed by the EU states makes the EU unique in trade questions. The supranational rules built into the relations between EU

²⁴ Spaulding Jr., 1991:343.

²⁵ See Pollard 1981 «Peaceful conquest»

²⁶ Thomson 1990:694-701.

²⁷ The link between the USA and the EU as a trading block is not the strongest, but from the beginning the USA defined some important aspect of how Western Europe's economical system developed through the Marshall aid, and later OECD. The ECSC and later the EU has followed this path, and was welcomed by the USA. See Urwin, 1989:102, and 138-139..

²⁸ Council for Mutual Economic Assistance (CMEA), or better known as COMECON.

²⁹ Smith 1994:462.

³⁰ Smith 1994:464.

³¹ Baghwati 1992:554.

member states also have a strong effect on countries outside the EU area.³² Especially the single market program has forced third countries to seek a redefinition of the trade relations towards the EU. This was especially important for the European countries with a high degree of EU trade. For instance, the EEA negotiations between the EU and EFTA were initiated by the decision of the single market, and took place in parallel with the EA negotiations. Thus the EU seems to influence third countries to adopt its standards in order to secure trade with the EU. Therefore, the EU can be described as system-exporting, and no geographical area in its environment seemed more receptive to the EU system than the Visegrad countries. Hence the question was how well and how quickly the EU could widen its system to include these countries, or in other words integrate them with the EU system.

During the 1980s there was a strengthening of the economic relationship between Eastern Europe and EU. The European Union engaged in trade negotiations with some East-European countries before 1989, but the agreements made then were not sufficient to reintegrate Eastern Europe into the European and world trade system. As the Visegrad countries acknowledged the EU as a trading partner, there were some «first degree» trade agreements with Hungary (1988), Poland (1989) and Czechoslovakia (1990).

In the spring of 1989, the breakdown of the external empire of the Soviet Union was symbolized and accelerated when Hungarian border guards opened the «Iron curtain».³³ The following disintegration of the CMEA area in Eastern Europe created an incentive for the integration between East and West, but the existence of the European customs union in the West made up a unique historic situation, different from the anarchic intermediate war period. The EU represented a center of gravity. The «*acquis*» was not only their internal rules but also the rules that defined the relations to «third countries». Given the common trade policy implemented on the basis of the treaty of Rome, the EU had to develop a common stance toward the new economic agreement. There were no questions of the EU system, but only a question of how far into the system the Visegrad countries were allowed to go. They could set qualifications for the Eastern countries, and they did,³⁴ but all were quickly met without much hesitation from the Visegrad four, and from this the EU had to come up with something more. The EU had to expand its system in order to satisfy the needs to the Visegrad countries.

2.1.2 The First Period

The Western arrangements now stood as the focal point of European trade. Not surprisingly, it took some time for both West European and American policy-makers to realize that European politics was on the threshold to a new era. The new relationship between the EU, EFTA and CMEA was left unclarified. In July 1989 at the G-7 meeting in Paris, the USA distanced itself from this process by delegating the new political responsibilities to the EU. The EU reacted quickly to the challenge with temporary agreements. This was the first time that such an important foreign policy issue had been left to the responsibility of the EU.

Early measures adopted by the EU in 1989-90 included suspending general and removing specific QRs, as well as granting the General System of Preferences (GSP) to the Visegrad. The GSP was granted to Poland and Hungary from 1 January 1990. Czechoslovakia got it a year later. This provided duty-free access of most «non-sensitive» industrial goods to the EU market within certain quotas. The EU exploited a weakness in the GATT agreement that says that preferences (GSP) must cover «substantially all trade».³⁵ In the «sensitive» areas,

³² See Bressand & Nicolaidis 1989

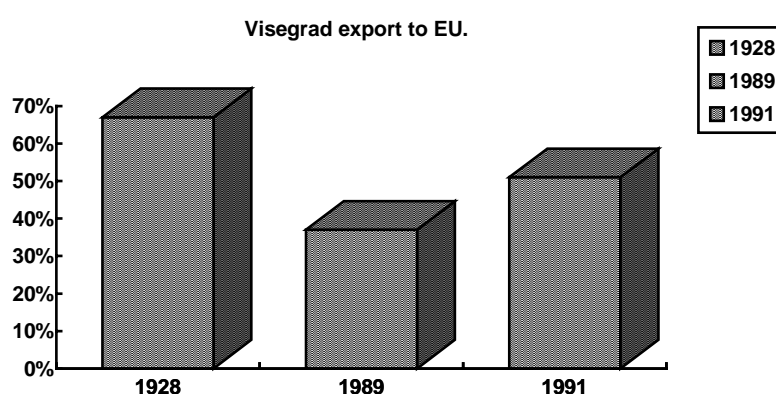
³³ Van Ham 1993:144. Formally it was Hungary's accession to the UN convention on refugees that laid the ground for the opening of the borders.

³⁴ The demand was that the beginning reforms toward market economy and democracy had to continue. That was exactly the goal of the Visegrad four, and in no way did they work against these goals, although the strategy could diverge. See van Brabant 1994.

³⁵ GATT Art. XXIV.

bilateral agreements were concluded with individual CEECs.³⁶ Consequently trade increased dramatically. The tariff free trade gave trade creation, in addition to the trade diversion from the CMEA. Some initial aid programs e.g. PHARE were controlled by the EU, but aid came from other countries as well. This initial aid was based on a commitment to reform in Eastern Europe, hence the political demands followed the aid all the way. In May 1990 the agreement on the EBRD (European Bank of Reconstruction and Development) was signed in Paris. However the importance of this bank have been less than initially expected.³⁷

The time after 1989 in trade was characterized by quick changes toward an integrated economic area. The developments after 1989 were explosive, but nonetheless, far away from the dimensions taken in the intermediate war period. Statistics show that in 1928 the Visegrad countries had an estimated average export to Western Europe of 67% of their total export, while the same numbers in 1989 and 1991 were 37% and 51% respectively.³⁸ Thus the potential in trade was far from fully utilized or normalized between the areas.



2.1.2 More Wanted

These efforts were positive, but the new relationship demanded a much deeper integration between the areas, and most of all, a closer economic and political relationship.³⁹ The EU had several policy options. They could give membership (custom union), but this would have required internal reforms in the EU. Secondly they could have given more market access within the GATT, or thirdly, they could have stimulated a free trade arrangement within Visegrad.⁴⁰ They chose to give more market access through an interim trade arrangement, which is defined as a transitional arrangement to an FTA.⁴¹

Politically there were several rhetorical ideas of the definition of this new relationship. Giscard d'Estaing spoke of a «European village comprising a number of houses». Margaret Thatcher specified the new relationship in her annual speech on 13 November 1989. She followed up d'Estaing's idea «and spoke of new forms of cooperation between EU and reformist central European countries». Thatcher also said that this relationship should go through the conclusion of association agreements along the lines of the EU's agreement with Turkey. «These

³⁶ Ferreira 1995:8.

³⁷ The first year it used more money on itself than in projects in Eastern Europe. There has also been several accusations of corruption and mismanagement. See Hyde-Price 1996 & Economist 28th of July 1990.

³⁸ Nicolaidis 1990:202.

³⁹ Portes 1994:27. «EU had the greatest responsibilities.»

⁴⁰ This came in 1993 and was named CEFTA. See Inotai & Sass 1994.

⁴¹ There are three arrangements that have exceptions from MFN; Interim agreements, (FTA) Free-trade arrangement and Customs Union (CU). The EAs are defined as a transitional agreement toward a customs union. Hence it is legal compared to the GATT rules. Jackson 1993:123.

agreements should establish solid economic and political links between these countries and the EU».⁴² Hungary was proposed as the first country to negotiate with, due to their early reforms, and this was met by a very positive response in Budapest. Even though there was strong political pressure to get things moving, the official start was first in December 1990. It took about a year for the member states to give the Commission a mandate, or in other words, for the Commission to get a mandate from the member states. One reason for this delay was the even more important question, at that time, of the reunification of Germany. However, the most important reason was that the rhetoric from the political leaders seemed to lack a basis in the economical situation of the EU. This was due to the divergence of preferences among the member states, but also because the EAs position in the CCP were a bit unclear.⁴³ The EAs created a new standard in EU trade agreements given their comprehensive nature. The rapprochement between the countries was institutionalized through the Common commercial policy (CCP) in the Union. The Eastern European countries had to accept the «*acquis communautaire*» developed in the Union. The bargaining powers were highly asymmetrical not only because the rules were dictated through the EU, but also because of the economic power difference between the negotiating partners. In addition, the EU negotiated bilaterally with each of the Visegrad countries. This strengthened the power asymmetry even further to the advantage of the EU. The bilateral insistence by the EU in the bargaining process must be interpreted as a way to maximize their gains through a dominating bargaining position. Hence the following agreements made between the EU and the Eastern European countries were mostly a result of the negotiations within the EU.

2.2 The Negotiations

The mandate was provided by Article 113 of the Treaty of Rome. This gave the Commission the responsibility to negotiate on the behalf of the Union. The important thing was to find a win-set from twelve different actors. Not surprisingly, this constrained the bargaining ability of the EU when it came to flexibility and creativity. The Commission was given freer hands than in the Uruguay-round where they were under control of a committee that represented the national states. The first mandate was presented in its final form to the Council and the parliament 27 August 1990.⁴⁴ The «true» mandate is of course difficult to know exactly,⁴⁵ but it was clearly constrained by the norms of both the EU and the GATT-agreement. This was a prerequisite from the USA when they delegated the control to the EU in Paris 1989.⁴⁶ The later revisions of the mandate occurred after the East-West negotiations had started. There were two revisions of the mandate during the year it took to negotiate. In praxis there was also a third at the end of the negotiations at the Maastricht summit.

2.2.1 The First Mandate

The initial outline was presented in April 1990.⁴⁷ This outline was quickly outdated by the «pace of reform»⁴⁸ in the East. In the August mandate, the word European Agreement occurred for the first time, to mark the importance of the political initiative which it represented. The Visegrad countries were clearly stated as the

⁴² Van Ham 1993:158.

⁴³ Meisel, Sandor. Interview taken in July 1996, Budapest at the Institute of World Economics.

⁴⁴ COM (90) 398 Final.

⁴⁵ The official mandate COM (90) 398.

⁴⁶ Hyde-Price 1996:197-198. G-7 and G-24 meeting in Paris 1989.

⁴⁷ SEC (90) 717 Final.

⁴⁸ COM (90)

governments which the EU were ready to talk with,⁴⁹ and there were six political goals in the proposal from the Commission. Summarized, the goals were described as follows:

The Associations agreement (EAs) should:

1. ...help create a climate of confidence and stability favoring political and economic reform, and allowing the development of close political relations which reflect shared values...
2. ...strengthen the foundations of the new European architecture. To enable partners to participate in the wider process of European integration..
3. ...reduce uncertainties in the market by a long-term relationship with the community..., because trade and investment will play a key role in raising living standards and producing non-inflationary growth..
4. ...help the transition in these countries..
5. ...improve transparency and coherence of community financial support..
6. ...promote a better two-way flow of information and cultural cooperation.

«The membership for their countries in the community is not among the objectives of the association agreements discussed in this communication.»⁵⁰ The European Agreements should be distinguished from article 237 that provides for membership. The general interpretation of this mandate (COM (90)) was that the goal was to formalize economic and, to a certain degree, political ties with the new countries. The EU laws were the basis of the relationship, and the adaptation was made by the others. The question of membership was not a theme. However the mandate also said that the conclusion of this agreement would not affect the possibility of membership. In order to achieve these goals, the following elements were required: a political dialogue, free trade and freedom of movement, economic cooperation, cultural cooperation, financial cooperation and institutions of association. Of these elements the bargaining was totally dominated by the second element (free trade and freedom of movement).⁵¹ A political dialogue was unproblematic and desired by both sides. The same was true regarding the institutions, while the cooperation of economy, culture and finance were more general in their provisions. Free trade was the key to an agreement and the most important determinant of the future relationship between the countries.

The framework was common for all partners, but would be adapted to the specificity of the situation of each country; thus, the formal relationship was bilateral. The European agreements went considerably beyond the provisions of the trade and cooperation agreements that these countries had earlier, and the EAs needed an appropriate legal base. An association Council was to be created and this could be based on Article 238. The internal EU discussion of this mandate was not very intense in the beginning since it was general and contained only political promises and no specifications of economical concessions. There was no final date for the conclusion of the mandate. This was an indication of the EU position regarding a mid-term review, where the agreement should be evaluated by both parties. Such a review could in fact stop the agreement at the request of

⁴⁹ It is also interesting that Yugoslavia at that time was considered appropriate for a European agreement. Romania and Bulgaria were not considered conditioned for these talks. See Van Ham 1993.

⁵⁰ COM (90):3.

⁵¹ Freedom of movement was strongly resisted by EU during the negotiations and, will not be included until EU finds the level of integration between the areas high enough to avoid complications (COM 90).

one of the parties, or force a re-negotiation of certain issues. Given the power relationship between the negotiating parties, this was perceived as very dangerous for the Visegrad countries.⁵²

2.2.2 Visegrad Motives

For the Visegrad countries, the trade agreements were seen as necessary for many reasons. Integration into the EU was seen as a desirable way of expanding trade and reaching a broad range of political and security objectives.⁵³ First, it was assumed that it would make their small and poor consumption markets, much more interesting to invest in. A free-trade agreement with the EU would thus boost the FDI to this area. Hopefully, this would create a beneficial circle where export and capital inflow could reinforce each other. In the long run, trade would create economic integration with the global economy. Intermediately, it was a key ingredient in the economic reforms and would help create political stability in a pressured situation. Another aspect was that GDR's integration with FRG and Southern Europe's similar economic structure made it important to come quickly into the Single Market. Their share of trade was also under threat from the Newly Industrialized Countries (NICs). Hence they needed the agreement, and they needed it as fast as possible. Therefore, the Visegrad countries unilaterally liberalized to meet the Western economy. This weakened their bargaining position, and left little to bargain over from the Visegrad side.⁵⁴

2.2.3 East-West, Hegemonic Bargain

Visegrad could not create alternative proposals to the EU mandate as the EU was in a dominant position versus the Visegrad-countries. Institutionally the EU became the focus, and its norms were taken for granted. This was natural given the strong preferences to become an EU member quickly, but it shows the focus on the rules and norms already existing in the EU as a future framework for the states on both the Western and Eastern sides. This was an indication of the institutional influence on the negotiations. The Hungarian memorandum of 12 July 1990 shows that the agenda set by the EU was entirely accepted as a starting position. No protest came about on the use of EU norms and rules as a basis. The agreement over the use of these rules was quite strong, except the question of membership, over which there was divergence from the very beginning.

The problem in general was that the details within the EU starting position were political statements, and not concrete proposals. The Visegrad countries had no experience with a mismatch between political statement and economic reality. Their pre-1989 experience was that the political restrictions were followed by economic restrictions. This time the political climate was promising, but the economic questions were still difficult to solve. However, reading the mandate in optimistic eyes at the first meeting December 1990, the Hungarian representatives expected a negotiation round of 5-6 months, and a ratification by January 1992.⁵⁵ There was a strong wish for agricultural trade and, without substantial agricultural concessions, Hungary would not conclude the agreements. The EU was positive at that point, but became more and more reluctant during the negotiations.⁵⁶ The negotiations had a promising start since no serious objections came from the EU, but after a while the EU showed a different face, and the demands from the EU became tougher. It could be that the interest groups needed to read and evaluate the Visegrad position before they started to influence the process. This may explain why the EU became more defensive as time went on. The gradual toughening of the EU is perhaps an indication of the influence of the interest groups. The open first mandate kept the interest groups alert, but they waited for

⁵² This was perceived as dangerous, because of the experience Turkey had with their agreement with EU. Interview with Sandor Meisel.

⁵³ Brada 1993:320.

⁵⁴ Nicolaidis 1990:224.

⁵⁵ Hungarian Memorandum 1990:1.

⁵⁶ Interview with Meisel, Sandor, taken in Budapest July 1996.

the specifics of the negotiations. Then the positions of the member states revealed themselves in the pattern expected from the preference analysis of the LI (chapter 4). This could be a possible theoretical explanation of the gradual toughening of the EU in the negotiation of the EAs.⁵⁷ If so, then this supports the LI in its view of the importance of the national preferences and the role of the interest groups, and thus my emphasize on LI as a fruitful theoretical approach in this case.

2.2.4 First Problems

Interim agreements are a third category of trade agreements, in addition to CU and FTA, to be accepted as an exception to the MFN principle. They should include a plan and schedule for the formation of either a CU or an FTA. This is a pragmatic provision in GATT that recognizes that FTAs and CUs are not created overnight. However, this brought in the question of membership, a question that created strong problems for the negotiations. The EU opted for the FTA and nothing more at the moment, while Visegrad went for the CU, or in effect full membership. The second meeting was in February 1991. The demand of a final date for free trade and the wording of accession in the EAs created large problems. The EU finally gave in to the pressure, and accepted a final date and a symbolic compromise regarding the wording of membership in the EAs.

The second mandate came in April 1991. It accepted the inclusion of the Visegrad countries intention to be a member of the union, and that this agreement would lead to such membership. The accession phrase in the agreement was not a direct link to membership, but the wording was included, and that was acceptable for the Visegrad countries and the EU. The agreement itself was, in practice, only leading to a FTA.

In addition, the mid-term review was skipped, and the agreed norm was that there should be a final date for free trade. Hungary insisted upon a final date, and accepted no date where the development could be frozen.⁵⁸ Two stages were unacceptable and a final date was necessary. Here there were some problems concerning the final date. In some sectors certain countries were against a final date of free trade, especially Portugal concerning the question of textile products.⁵⁹

The modifications made in April 1991 could be described as more political than technical. The wording of membership was of no direct concern for the interest groups, giving the political elite more autonomy to make compromises. The question of mid-term review did weaken the EU's power in the future to change the agreement made, but there were still several options for the EU and its actors to secure themselves in the negotiations.

Hence these political concessions from the EU did not really create large problems for the EU actors.

2.2.5 The Next Round

After the Commission got a new mandate in April, the negotiations toward July were more technical, but still problematic. The negotiations were disrupted by technical conflicts, all of which reflect problems that have followed the EU in the past, and that have to be solved in a context other than East-West considerations. Many of these problems arise because of the nature of the EU system, which rests on compensation and special protection toward politically important national sectors. As long as it is politically impossible to reform these systems, the solution has to be protection (compensation from outside), or compensations paid within the EU system for free trade. Hence there were major problems particularly in textiles, steel and agriculture. The final official EA

⁵⁷ If this is the right explanation of the phenomena of restrictiveness over time, then one should expect to see this trend in all trade negotiations made by the EU.

⁵⁸ The experience of Turkey regarding mid-term review frightened the Visegrad countries. They feared that a mid term review could end up as a new stage where the EU could pressure the Visegrad countries into further concessions, political or economic. In this position it seems like the Visegrad had done their homework properly.

⁵⁹ Meisel Sandor, interview taken in Budapest July 1996.

conflict came in steel, where France, Italy, Spain and Portugal were concerned over the elimination of quotas and duties. They wanted VERs, but instead they got a safeguard clause in case of market disruption. In addition it is important to understand that Eurofer still has cartel power in the organization of the market as they always have had. These examples will be elaborated further in the analysis chapters (4-6).

2.3 The European Agreements

The EAs were drawn up with the countries of Central and Eastern Europe in order to boost trade between the EU and the East by phasing out economic barriers, and building up political ties which had been practically non-existent during the communist period. They also recognized that these countries wanted membership in the union, even though the EU did not share this objective until the Copenhagen summit in June 1993 where the EU explicitly agreed on the goal of membership.

The EAs are mixed agreements, covering areas of both community and member state competence. In addition to trade, commercial and economic cooperation, they will provide for almost all aspects of economic activity, for political dialogue and for cultural cooperation.⁶⁰

The agreements have a common framework, adapted to the specific situation of each partner-country, and will include the following main elements:⁶¹

Political dialogue: Regular meetings at the highest political level on all subjects of mutual interest, with the aim of achieving convergent views on matters of foreign policy and for supporting the reforms.

Trade in goods: Preferential treatment will be given and a free trade area will be established progressively for industrial goods.⁶²

Trade related issues: The agreements include a number of provisions governing trade in all products. Among these are the standstill clause prohibiting the introduction of new trade restrictions, the safeguard clause, anti-dumping provisions, rules of origin, and shortage provisions allowing for export restrictions.

Other elements; movement of workers, right of establishment, services, competition and other economic provisions, approximation of law, economic cooperation, cultural cooperation, financial cooperation, and new institutions. An Association Council was created at the ministerial level and Association committees comprising high officials and Association parliamentary committees.

Given the broad character of the EAs, I will concentrate on the main points. «This is to develop their political and economic cooperation in the context of their future membership of the European Union.»⁶³ The backbone of each agreement is the establishment of a free trade area between the EU and each associate.⁶⁴ Hence the focus will be put on the negotiations and preferences toward the free trade area. The most concrete part of the agreements is the trade specifications connected to industrial goods and agriculture. This was also the part that created the largest obstacles in the internal negotiation within the EU and the external negotiations with the Visegrad countries.

⁶⁰ The agreements contains five substantive elements: Title III deals with the free movement of goods (the core of the agreement and therefore of my thesis); Title IV with the movement of workers; establishment and the supply of services; Title V with payments, competition and the approximation of laws; Title VI with economic cooperation; and Title VII with financial cooperation.

⁶¹ Memo 24/92.

⁶² Memo 24/92:..2.

⁶³ Memo 7/94.

⁶⁴ Pinder 1994:178.

2.3.1 The Trade Details

The European Agreements were finished in December 1991, and were finally ratified February 1994 and February 1995 (Ex-Czechoslovakia). Since March 1992 the interim Agreements on Trade provisions of the Europe Agreements have been in force. According to these there shall be a free trade area between the two parties within 10 years, and the EU should dismantle their tariffs at a quicker pace than the Visegrad countries. This asymmetry is because the Visegrad shall get more time to adjust to free-trade, given their weaker economic basis. Different regimes apply, however, to different goods. The following are for sensitive goods:

Textiles are under quotas, and the protocols replaced the GSP concessions. The quotas and tariffs would be removed within 5 years.

Iron and steel duties would be removed within 6 years. Safeguard provisions allowed for the introduction of QRs in case of market disturbance, or if imports cause injury to EU producers.

Agriculture was very restrictive, and concessions would be reciprocal. There was a big difference concerning the separate products. This reflected the traditional effects of the CAP-policy in the EU.

The time period for industrial products was 5 years for the EU, seven for Poland, while the rest got 9 years. The interim agreements contained a safeguard clause, anti-dumping provisions and a shortage clause. There was also an emerging industries clause allowing for an exceptional and special tariff for a maximum of 5 years. On services much was left open, but it was commented that the asymmetry here were in the favor of the EU. One obvious reason for the neglect of this from the EU was the lack of willingness to liberalize fields that touched the issue of migration.⁶⁵

At the Copenhagen European Council June 1993, the EU unilaterally shortened the time period by two years. Giving free access 1 January 1995 for the Visegrad four. The argument from the EU was that after the asymmetrical liberalization through the agreements in 1992, and the strengthening in 1993, there would be virtually free access to the European Union from the end of 1995.

2.3.2 Standard & Contingent Protection

The Europe agreements include strict rules of origin and provisions allowing for contingent protection (anti-dumping and vaguely defined safeguards), which in practice limit the scope of liberalization.⁶⁶ Barriers on exports to market-oriented economies fall into two broad types. Standard protection⁶⁷ is one type and contingent protection the other. The primary forms of contingent protection are anti-dumping actions (AD), countervailing duties, and safeguards. These can only be used when particular conditions are met. A common element is that a domestic industry, producing a similar product is injured in some way. These protections are legal in GATT, and the protections must follow GATT rules.

According to Article VI of GATT, a dumping margin is the difference between the normal value of the product and its price when sold for export. The AD duty cannot be greater than this dumping margin.⁶⁸ However, much of

⁶⁵ Nicolaidis 1993:229.

⁶⁶ Ferreira 1995:10.

⁶⁷ Standard protection is the normal tariffs that products have when they cross international borders.

⁶⁸ According to Hindley, products can be shown as «dumped», unless the price of the product when exported is substantially greater than the price at which the product is sold in the home market of the exporter. Once dumping is proved, it is only the well-being of domestic producers that can allow the exports to escape from AD. See Hindley 1993.

the effect of AD is not shown, because exporters raise their prices in fear of accusations. Hence the existence and often practice of AD, creates obstacles for free trade. As Hindley states «for the EU, AD is by far the most important form of contingent protection.»⁶⁹

Safeguards are temporary import restrictions to protect domestic producers for a sudden surge in imports, and are a substitute to VERs.⁷⁰ Possibly because these conditions are politically onerous, the EU make relatively little use of Article XIX in GATT which allows safeguards to happen. Instead these cases are solved with VERs from the exporters. The exporters are more comfortable decreasing exports with a raise in prices compared to decreasing exports at lower prices. A third protective measure, countervailing duties, is not used extensively by the EU, and will therefore not be treated any further.⁷¹

The use of contingent protection is one of the parts of the EAs that the Visegrad countries are most skeptical about.⁷² Even if there is a formal free trade area, the use of contingent protection can potentially create strong restrictions in trade. By the date of enforcement of the treaty several had pointed at that the agreements did not represent a progress toward earlier concessions within the GSP and MFN. Winters describes this as managed liberalism. «They display a desire to open markets in a fashion that restricts the resulting shocks».⁷³ Because of the rapid changes in their exports, Visegrad countries are often threatened from the contingent protection measures.

One could argue that the very existence of quotas and of other safeguard provisions is sufficiently effective in restricting expansion of exports from transition countries to Western markets. These provisions do not actually have to be triggered to have an intimidating effect. It is the vagueness that creates the problems. The nature of the treaties disqualifies Visegrad as an investment receiver from other regions. This is because the power asymmetry creates uncertainty for other regions, so they could meet trade sanctions any time dependent solely upon the decision of the EU. This could lead Visegrad producers to «voluntarily take steps to reduce the probability of a formal complaint being lodged against them».⁷⁴ This is not limited to the sensitive sector because of the safeguards. In effect, every product can become a sensitive product. The clauses allowing this are present in the interim agreements.⁷⁵ The effect will be that the investments will be easier for the EU because they can influence the sanctions while others can not. This will create a diversion of the investments «*ex ante*». It is not easy to support this hypothesis with hard evidence. Logically this cannot be shown in statistics, because there are not statistics for investments that have not occurred, and because its difficult to find comparisons to make. Logically a failure to provide an assurance that these barriers will disappear would stimulate the FDI in the EU's less developed areas, namely the Mediterranean.⁷⁶ This diversion will also influence the FDI from the EU. The rules of origin will naturally not be a problem for EU investments, but the other contingent protections could create problems even for EU firms.

⁶⁹ In 1980-86 EU made 213 affirmative findings of dumping. 108 of those were related to STE (State trading economies). Hindley 1993 :4.

⁷⁰ UN report 1994:144.

⁷¹ Countervailing duties is mostly used by USA..

⁷² UN report 1994:2.

⁷³ Winters 1993:217.

⁷⁴ UN report 1994:115.

⁷⁵ Rollo & Smith 1993:166.

⁷⁶ Brada 1993:339.

Also, the earlier great numbers of ADs against STEs (State Trading Economies) indicated problems for the Visegrad. It was left to the members of GATT to define which states have STEs. One central question was discussed in connection with «state trading countries». There was an insistence from the Visegrad that they should be taken off the list of state trading countries, in order to avoid the frequent protection from the EU concerning their status as state trading countries. Visegrad was removed as STEs in February 1992 as agreed during the EAs. In spite of such action the EU has several times used STE actions against Yugoslavia even though they were a market economy, so it was really no guarantee for the Visegrad. «The experience of Yugoslavia suggests that removal from the STE list is not a panacea for problems with EU AD action».⁷⁷ Contingent protection was in line with the GATT regime, and has been used in every trade agreement by the EU and other major actors in world trade. Hungary also had safeguard measures towards the EU, but the asymmetry of power worked for the advantage of the EU when it comes to the use of these measures. Hence, there was no way Visegrad could avoid these contingent protection measures. The practice of the EU makes the effect of these measures a bit stronger than with other agreements. The EAs provide a clear legal form for EU contingent protection towards Visegrad. The EAs provide no barrier to the EU for applying contingent protection to Visegrad exports in a hostile or trade-obstructing manner. Hence the quality of the arrangements available depend upon the aggressiveness with which AD action is applied by the EU.

The significance of contingent protection raises the issue that the EU is sensitive to all production that is a source of rapid import growth, and that Visegrad could face protectionism in any sector in which they are successful in the future.⁷⁸ Baghwati claims that the customs unions are a balance of trade-creating and trade-protecting forces, and there could easily be a «these are our markets syndrome» in such an organization.⁷⁹ There could also be an «Our market is large enough syndrome» especially in the larger countries. The gain from new members would be less than the costs of expansion.⁸⁰ The neglect of politics in such an analysis is striking. Baldwin claims that Baghwati has too economic of a view on the EU as a CU. The political aspect is also important. The increasing of economic interdependence was a way to reduce the likelihood of future military conflicts.⁸¹ A destabilized Europe with threats of mass migration and regional conflicts will increase the costs dramatically in the West. Hans Werner Sinn argues that «the political risks of a continuation of trade restrictions and the imposition of immigration constraints are enormous».⁸² Surely such effects are more relevant for welfare comparisons than for the changes in the sums of consumer and producer rents which economic equilibrium models are able to estimate.

⁸³ My argument is that this is a highly relevant factor in the European agreements. European awareness of conflicts is high, and even in an economic pressured time there will be room for such thoughts in the trade policy, but as we have seen there are strong indications that Baghwati has a point with his view on the EU.

⁷⁷ Hindley 1993:9.

⁷⁸ Rollo & Smith. 1993:141.

⁷⁹ Baghwati 1992:39.

⁸⁰ Ibid. 1992:39.

⁸¹ Baldwin 1995:51-2.

⁸² Sinn 1993:169.

⁸³ This is the type of model used by Rollo & Smith.

2.3.3 Trade Effect

In spite of this, progress toward liberalization was present, and this had a noticeable impact on the performance of the Visegrad exports. The liberalizing of East-West trade in Europe has created a major upturn in the trade. Since March 1992, half the Visegrad countries export (including agriculture) has been allowed into the European union free of duty and quantitative restrictions. In 1998 it is expected that the figures for duty-free trade will have increased to 85% with the remainder of the restrictions being on agricultural products.

The historical patterns were quickly reestablished after the end of the cold war, while the earlier trade pattern in Eastern Europe (CMEA) broke down. In 1993 the European Union was the main trading partner of the countries of Central and Eastern Europe. The EU was receiving 79% of their export, and supplying 77% of their import. This was an increase from 1989 of 74% in import and 120% for export.⁸⁴ In spite of a negative economic climate in the Western economies in the early nineties, there was a substantial increase in the export to the EU (20% each year). Visegrad imports from the EU increased with 15-18% each year. The EU now represents about 2/3 of the total trade in the Visegrad countries, while the CMEA share is down to 20 %.

One of the obvious reasons for the increasing trade was that the EU liberalized earlier than other regions. Another reason is the fact that distance is an important factor in the transaction costs. However, it is difficult to measure the importance of geographic closeness. Baghwati doubts that this is an important factor, and mentions other explanations such as «trade follows flag and opposite, or that preferential grants are creating a spurious effect».⁸⁵ I think his explanations must be seen as complementary. Other explanations may exist, but they cannot take away the basic effects of distance, both in power and economic (transaction) costs. Distance also influences the risk calculations given the possibility to influence the other country,⁸⁶ and as a consequence reduces the uncertainty with investments.

The EU has been careful as regards their sensitive sectors. This has its natural reasons, emanating from the divergent economic structure in the EU. The trade in sensitive sectors is dominant, 50% of the export from Poland and Hungary and 35% from Czechoslovakia are in these sectors.⁸⁷ The potential expected in trade was reached in 1992. This made some skepticism among the political leaders in the West, given the adjustment costs in the sensitive sectors. This skepticism may be overvalued since much of the adjustment is already taken. Rollo & Smith argue that the adjustment costs are «well within the range of the normal experience of economic change».⁸⁸ Besides, the net effect will be welfare increasing both in the EU (consumers) and Visegrad.

2.3.4 Trade Deficit

There has been a significant trade deficit in Eastern Europe. This has forced the Visegrad countries to reinstall some tariffs. The retreat from liberalism created considerable bitterness in Visegrad; moreover, the protectionistic pressures within the Visegrad economies are increasing.⁸⁹

⁸⁴ EU DG1 1995:1.

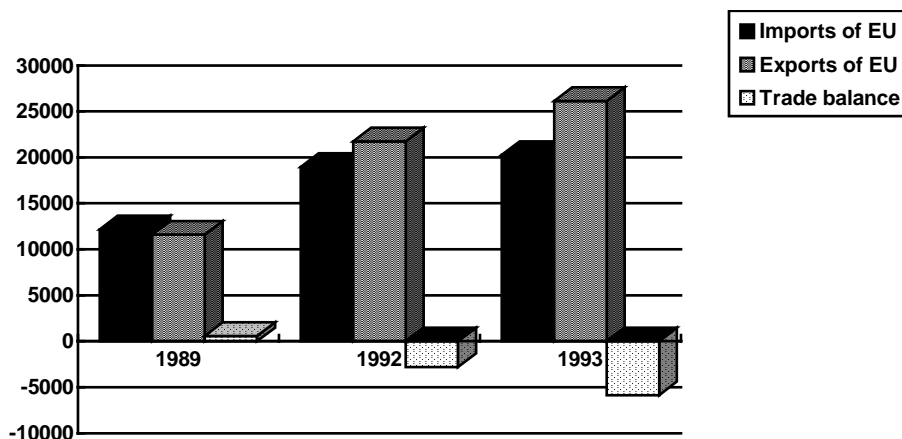
⁸⁵ Baghwati 1992:34-5.

⁸⁶ Explained in the geopolitics section.

⁸⁷ Rollo & Smith 1993:147-8.

⁸⁸ Ibid. 1993:165.

⁸⁹ UN 1994:3.



(Source Eurostat Comext 6. Feb. 1995. Numbers from CEEC)⁹⁰

This trade deficit could be seen as a natural development, because of the lack of saving and the need for development. Eastern Europe needs investment, and this is financed through borrowing or aid, given the lack of capital. The important thing is that the deficit is sustainable. This will depend on the indebtedness of each country, and the use of the capital. One other reason for the trade deficit in 1993 could be the low growth rates in the EU. The fall of Western import demand was substantial in 1993, and the goods from CEEC were especially vulnerable.⁹¹ In spite of this these countries have increased their market share, which was a good sign for economic improvement. Developments in the first three months of 1994 were much better, and this was in line with the argument of the negative economic climate in the EU.⁹²

2.3.5 Protectionism or Not?

The EU domination in trade may be interpreted several ways: 1) The liberal explanation.

The EU, given the distance, keeps the transaction costs low and the influence high; thus, it is natural that the EU dominates the market. Further, one of the clearest advantages to Visegrad is labor-intensive production. So in a vertical chain it is natural to use Visegrad like this. Consumption should normally take place in the EU, which is the strongest market.

2) The protectionism explanation. The EU has strict rules of origin, and other contingent protection. These make Visegrad less interesting to invest in, because third countries can not use their own domestically produced parts when they export products into the EU market. This solution would otherwise have been natural to use for others for providing the EU market, given the distance. In addition the options available to the EU to increase tariffs all the time, makes it highly uncertain for other countries to invest in Visegrad. Thus contingent protection, which may seriously deter investment in Visegrad may simply be protectionism in any sector in which Visegrad is successful in the future.⁹³ In effect this strengthens the dependency of Visegrad on the EU. One could argue that this locks the investments and trade in favor of the EU. EU investors will then have many more incentives for

⁹⁰ (CEEC) Central and Eastern European countries. (Visegrad + Romania and Bulgaria.)

⁹¹ UN 1994:41.

⁹² EU commission report. Source Comtrade + Comexternal Eurostat. 1995:13.

⁹³ Rollo & Smith 1993:139.

FDI in Visegrad than others. This will be the effect of the linkage to the EU through a trade agreement of this character. Baghwati is clear about modern methods of protection as anti-dumping and VERs; «they will lead to clear trade diversion».⁹⁴ Thus this should not only stop investments from other regions to Visegrad, but also stop a potential trade creation to the benefit of EU consumers and some producers.

2.4 The Nature of the EU

Do we need an EU-specific theoretical approach or could the EU be described with traditional approaches? One central question when we discuss the analytical approach to EU trade policy is how to perceive the EU. LI argues that even if the EU is a unique institution, it does not need a «*sui generis*» theory.⁹⁵ The conclusion of LI is that traditional regime theory must be expanded when it comes to the pooling and delegation of power. However, the character of the EU in trade policy is so unique that we need an empirical description that gives a proper understanding of the specifications of the EU. It is not my intention to explain why CCP has developed as it has, but to evaluate how LI can grasp the nature of CCP and how it could be used to explain the bargaining that took place in connection with the negotiation of the EAs between the EU and Visegrad. Hence, I will use time to describe the EU and the special part of the EU (CCP) which is relevant in the negotiating of an association agreement. Given that there are many and varied decision making rules in different policy areas, there has to be some limitations. Thus, I am presenting the most relevant parts of the EU as an institution.

2.4.1 The European Union

The EU is a supranational/intergovernmental institution that within a defined issue-field creates rules for the whole territories of the member states. It co-operates mainly on economic issues, but foreign and domestic policy issues are also defined in the treaty. The depth of the co-operation varies from issue to issue, but the tendency has been to widen and strengthen the co-operation over time. This development has been marked by major setbacks dependent upon the overall climate for integration. The co-operation is strongest in the internal market and the trade policy (CCP). This is why the Eastern countries face a relatively coherent actor in these fields. The CCP, as the relevant part of the EU, will be presented in general as background information related to the subject of the thesis.

2.4.2 The Common Commercial Policy (CCP)

The treaty of Rome committed the member countries of the community to establish common policies in three areas: agriculture, transport and trade. A common trade policy was essential to the successful operation of the customs union. The common commercial policy is supposed to strengthen the bargaining power of the member countries in international trade negotiations; to avoid spillover effects from national trade policies that creates ineffective markets in the internal market, and to secure a technically uniform system that is necessary to secure the functioning of the customs union. Thus the treaty of Rome called for the creation of a CCP. The rules on the conduct of external trade should be uniform and all negotiations on trade should be handled jointly through the community institutions. The CCP commits its members to work together in the field of external relations. It was thus an important step toward a common foreign and security policy (CFSP). By locking the trade agreements of the member countries together through the customs union and the CCP, the treaty of Rome aimed to establish the EU as a single trading entity, able to speak with a powerful voice in international trade affairs. As the worlds largest trading block, the EU is a prime focus for non-member countries anxious to secure the best possible trading agreement with the EU. The CCP should be based on «uniform principles» - meaning the rules governing trade with non-member countries must be essentially the same in each member state.⁹⁶ There is a common approach in CCP regarding tariff amendments, existing import quotas, protecting commercial measures, export

⁹⁴ Baghwati 1992:37.

⁹⁵ Moravcsik 1993:474.

⁹⁶ Hine 1985:86.

policy and the concluding of tariff or trade agreements. The Commission is charged with drafting proposals for common measures, but decision making rests with the Council of Ministers.

2.4.3 The Common Customs Tariff (CCT)

The EU's common external tariff is known as the common customs tariff. In the beginning this was set as the arithmetical average between the four customs territories from 1957.⁹⁷ This average meant that some countries became more protected in trade while others became more liberalized toward third countries. The CCT was introduced 1968 after a ten year transmission phase. Afterwards this CCT has been reduced as a consequence of several GATT negotiations.

A customs union stimulates trade between the members because of the lack of internal tariffs. However, some of this trade is diverted from other countries. The degree of trade creation compared to trade diversion is dependent upon the CCT compared to the old tariffs. Because of the geographical concentration in the EU, trade creation has been stronger than the diversion. However, there have been complaints from many of the external trading partners about the trade diversion. Every enlargement of the EU, will always give some trade diversion from third countries.⁹⁸ This has and still irritates particularly the USA which tends to demand compensations in these cases.⁹⁹

2.4.4 CCT Rules

Certain rules had to be introduced with the CCT, one is the classification of goods. They need uniform standards to avoid arbitrary decisions by the customs authorities. Some of the goods are restricted after quotas, and arbitrary treatment in the classification would weaken this policy. The EU gives favorable treatment to goods from certain countries if one can prove that the goods are produced in these countries. This makes the rules of origin very important. The rules of origin are important in defining which category the products fall into. The main purpose of this rule is to prevent producers in non-preferred countries from sending their goods to the EU via a country that has a preferential trade agreement with the EU, and then claiming preferential terms of accesses for them (trade deflection).

Some goods are temporarily suspended from duties when there is a lack of these goods in the EU, or the relevant technology is wanted by the EU. Duties may be totally or partially lifted when they are defined as outward processing products. This is part of the strategy of many European based multinationals in their effort to reduce costs in the production phase. The strategy is to delegate the most labor intensive part of the production to countries with a cheaper «work force», and then re-import the products for further manufacturing.

2.4.5 Different Rates

The union countries are contracting parties to the GATT/WTO, and hence have an obligation to adopt a non-discriminatory approach to trade with other contracting parties, except where there is a special provision for preferential arrangements. In spite of the firm framework GATT gave to the EU, there was flexibility in the formation of a new trade policy. This was a consequence of the several breaches in the GATT treaty for

⁹⁷ France, West-Germany, Italy and Benelux. (Benelux had their own custom union).

⁹⁸ For a discussion of trade effects of a customs union see Baghwati 1992, Williams 1991 and Harrop 1992.

⁹⁹ Especially the inclusion of Spain and Portugal were met by demands of compensations from USA, due to their special agricultural composition.. Williams 1991:34 «Chicken war».

preferential treatment (Art. XXIV in GATT).¹⁰⁰ This gives the EU the possibility of different forms of trade relationship:

- (i) within the union; the internal market.
- (ii) with GATT contracting parties; mutual most-favored nation treatment, based on conventional duties negotiated in GATT.
- (iii) Countries which are not parties to GATT: MFN or worse, bilateral agreements.

Trade with WTO (GATT) countries may follow the conventional duties. Trade with non-members of the WTO may follow the autonomous duties.¹⁰¹ It must be said that within the GATT agreement there are also other instruments that can influence the degree of tariffs such as ADs and VERs.¹⁰² These will also influence the association agreements as the EAs.

2.4.6 Preferential EU Trade

There are several countries that have preferential trade with the EU independent from the principle of MFN. This is based on special rules concerning Article XXIV, and opens for a more complex system of trade arrangements used by the EU. The logic is that GATT recognizes that a transition to membership or a free trade area is a long process. This gives the union a possibility to give the associated countries (ACs) completely free access to the internal market on the grounds that the agreements are preparations to a forthcoming membership or a free trade agreement. The problem is that this phase has no time limit, giving the EU a possibility to keep the associates on ice. This has been exploited by the EU, and as a consequence their association agreements, which are meant to be transitional, are now fully fledged trade agreements that break the principle of MFN. However, this can be done without a breach of the MFN principle in three different ways:

a) The colonial legacy

The old colonies got trade agreements named association agreements. These are quite similar to the EAs in their nature, but not so complex either in the degree of free trade or political implications.

b) Trade problems of developing countries.

During the 1960s, the developing countries campaigned for special treatment of their exports, encouraging their development. From 1971 the EU has implemented their version of the GSP, creating another category of trade treatment. This version was given to the Visegrad countries from February 1990.

c) EU enlargement or a free trade zone.

Under article 237 in the treaty of Rome, any European state may apply for EU membership. In the transition phase, article 238 can be developed as an association agreement between EU and the relevant states. EU have used article 238 also when the formal goal is free trade. Greece and Turkey became associated in the early 1960s, with a view to eventual full membership. This gave them special trade agreements with the union - the so-called Association Agreements. Since then several others have achieved trade agreements under the same category. This is legal according to the GATT treaty, even if it is a breach on the intention behind the MFN principle.¹⁰³

¹⁰⁰ GATT have exceptions for regional trade. It is based on the principle that free trade between a group of states is a logical step towards universal free trade. This is strongly disputed by among others Baghwati 1992. See Baghwati «Regionalism vs. Multilateralism in World Economy 1992.

¹⁰¹ Autonomous duties are the original duties independent of GATT.

¹⁰² Article VI and XIX in GATT.

¹⁰³ Art. 238 (Treaty of Rome) & Art. XXIV GATT.

Article 238 is vague and refers to «reciprocal rights and obligations, joint actions and special procedures».¹⁰⁴ It could include everything from a straightforward trade agreement to not so far from full membership. In practice the article is restricted to countries that want eventual membership in the union, and developing countries which have special preferences in their trade with the union.

My thesis is concentrating on the conclusion of tariff or trade agreements of this type (Art. 237/238).

The EAs are trade agreements, not of the ordinary type belonging to Article 113, but an association agreement belonging to Article 238 as mentioned earlier. The traditional trade agreements are provided by article 113.

However, the procedures followed in Articles 113 and 238 are similar; it is only the goal that differs. An ordinary negotiating procedure is as follows:

2.4.7 The Decision Making Structure of Article 238

1) The Commission makes recommendations for negotiations to the Council. In other words they propose a mandate to the member states. 2) The proposal will be accepted or modified by the Council. Then the Council authorizes the Commission to open discussions. In other words they get a mandate.

3) The Council establishes a framework for negotiations, and appoints a special committee to assist the Commission. This special committee was not appointed in the case of the EA negotiations. Thus the Commission had a freer role than usual. 4) The Commission conducts negotiations in consultations with the committee. 5) An agreement is concluded by the Council. The decision is based on consensus. Thus every member state has the right of veto. This agreement will be followed by a ratification by the members and the parliament. Whenever there is a need for a new mandate the Commission must go back to the Council and get new instructions.

The ultimate power rests with the Council which, in practice, keeps very tight control over the Commission's conduct of negotiations with non-member countries, through the watchful eyes of the committee, by giving the Commission a very detailed negotiating mandate, and by being the deciding actor. Article 238 permits the union to enter a wide range of agreements with non-member countries, known as associations. These agreements require ratification in all national parliaments of the member states as well as the absolute majority of the EP.¹⁰⁵

In the mean time the relationships between the countries could be secured by interim agreements providing for the enforcement of advanced entry into of the parts on trade and trade related measures.¹⁰⁶

2.4.8 The EU from the Outside

Seen from the outside in the sector of trade policy, the EU is a regional institutional co-operation which is restricted by both the GATT/WTO treaty and the UN. Even though the EU is restricted by the GATT/WTO treaty, the EU is still a major actor in GATT/WTO, and there are several breaches in GATT to be exploited by the EU. This gives the EU great freedom in their choice of trade policy toward third countries. They can choose between MFN or association agreements. Within the type of association agreements there is no firm definition of how many concessions the EU has to give.

The CCP succeeds in regulating the member states trade policy with a common EU trade policy due to the strict rules of CCP. This trade policy is preferential toward certain countries and certain products. In fact those third

¹⁰⁴ Romtraktaten 1991:88.

¹⁰⁵ Hine 1985: 95.

¹⁰⁶ These interim agreements between the EU and Visegrad were signed at the date of agreement in December 1991 and came into force in March 1992. Meisel 1995:57 in Mizsei & Rudka 1995.

countries which only have MFN guarantees, tend to be the ones with the most restricted access to the EU. This trade policy is legal concerning the GATT laws, thus making it hard for third countries to change the existing system.¹⁰⁷ This system makes it easier for political motives other than economy to influence the trade policy. The policy can be used as leverage, since the «carrot-stick» method is available to the EU. The EU has a choice if they want to give an association agreement to a third country. They can also choose the degree of free trade and other concessions in such an agreement. Hence, countries can be rewarded or punished solely by the decision of EU. Thus the common policy creates power in the market, and the flexible preferential trade policy makes it easier to use this power in order to pursue economic or political goals. Hence, some of the institutional effect will be that EU member states have a strong possibility to use trade as a political tool, and it gives the interest groups strong incentives to attempt to influence the CCP, given its flexibility in the choice of different rates/duties. The conclusion then must be that the EU has freedom in their choice of the degree of free trade with third countries. This flexibility in the trade policy that the EU enjoys, creates strong incentives for interest groups to lobby for free trade or protectionism depending on their competitiveness. Neither GATT nor CCP will influence the details of a trade agreement. The question then is how can the EU as an actor exploit this freedom.

2.5 EU: A Unitary Actor in Trade Policy?

How well can the EU create a common trade policy toward third countries? Treating the EU as a unitary actor is even more difficult than with states, given the strong intergovernmental structure in the decision making procedure. The EU exercises power predominantly in the «soft» end of the power spectrum, as opposed to the «hard» or coercive power taken by the ultimate sanction available to state authorities. However, J. S. Nye has pointed out that, «states themselves, including the most powerful states of all, depend increasingly on soft power to achieve outcomes in an interdependent world».¹⁰⁸

Traditionally, the concept of foreign policy itself implies the existence of a central governing authority and by extension, the existence of a state. The classical conceptions of statehood with sovereignty, recognition of other states, and the control of territory and transactions, have been stretched not only by the increasing diversity of states themselves but also by the globalization and transnationalization of economic and social processes.¹⁰⁹

This implies that the notion of foreign policy and foreign economic policy also need redefining. Conventionally, the economic policy would be a means toward an ultimately political goal, or a goal concerned with security. A revised version would see the necessity for governmental power to build networks for action, which may or may not coincide with the purely national boundaries. In addition there would be a focus on the regulatory structures and rules at both sub-national and trans-national levels which provide a framework for the pursuit of goals by a variety of actors.¹¹⁰

¹⁰⁷ There have been complaints, especially from the USA and other free trade advocates. Baghwati 1992.

¹⁰⁸ Smith 1994:462.

¹⁰⁹ Smith 1994:456.

¹¹⁰ See Bressand & Nicolaidis 1989. This article is dedicated to the effect of explaining the network activity within the EU. Including new type of actors, and gray-zones between the states and the market.

The community does in many ways reflect these trends of changed conditions. Formally, there are only a few areas where the community has supplanted state powers, one is trade. On the other hand there are also few areas where the states themselves can claim sovereignty, either because of their EU membership or because of the global interdependence.¹¹¹ In addition, limitations to law policy are hard to make because of the intertwined character of linkage between security and economic policy.¹¹²

In spite of their strong position on some issues, generally the EU is still not seen as an actor on the same level as the nation-states. The European states are generally still seen as the negotiating partners by third parties. This is because the internal decision-making structure in the EU makes the organization something between a regime and a state.¹¹³ The structure will vary from issue-field to issue field, but the main rule is the national veto for the states in their defined vital areas. (Luxembourg-compromise). However, in the role of the trade policy (CCP), the EU may be closer to a unitary foreign policy.

When it comes to resources, the EU has certain important powers particularly those related to market access and the common commercial policy (CCP). In addition there are important mechanisms such as anti-dumping regulations and rules of origin giving the EU armory in trade. Combined with the power resulting from the common policy in relations with third countries, and there is a clear basis for a partial but powerful foreign economic policy.¹¹⁴ Thus, I feel it is correct to describe and use the EU as an actor with the capacity to have a foreign economic policy in trade.

2.5.1 Pursuing Trade Policy

Dean Acheson once described trade policy as the area in which the currents of «foreign affairs» cross with those of «fiscal and domestic matters». He called tariffs «the most political of all areas of foreign policy.» Acheson's observation should remind us that trade policy is a response to the economic and political pressures from both the international and domestic frameworks in order to manage the trade.

2.5.2 Trade Leverage

Trade leverage is the use of trade flow as a means to influence another state's trade policy, as well as pursuing non-trade related foreign policy goals.¹¹⁵ The recognition of trade as a foreign policy tool is closely (though inversely) related to the availability of other non-trade foreign policy tool and international levers. Trade leverage may be a relatively undesirable form of statecraft, with states tending to prefer non-market sanctions over which they have greater control.¹¹⁶

In societies built on private ownership of economic property, trade is a particularly complex tool of statecraft, since governments acting in the international arena must attempt to employ private economic resources over which they have no direct control. Consequently the unitary rational actor assumption of state behavior appears as a particularly problematic point of departure for studies of foreign trade policy in market economies. This is

¹¹¹ Smith 1994:457.

¹¹² Buzan 1994:99.

¹¹³ Keohane & Hoffmann 1991:10.

¹¹⁴ Smith 1994:461

¹¹⁵ Acheson 1969:139-140.

¹¹⁶ Ibid.

especially true in the case of EU trade where the trade policy is meant to be conducted by a supranational actor. Spaulding has identified four factors that determine a state's ability to use trade as a leverage:¹¹⁷

1. Anarchic or politicized (East-West) trade regime:

The trade regime is highly politicized, mainly because of the central position of the EU. This strengthens the ability to use trade as a leverage according to Spaulding. The EU has during a period of over thirty years developed a highly organized trade regime within its economic environment. Thus even though the Eastern trade regime broke down, there was no anarchy in trade between East and West. It was replaced by the well-developed Western trade regime connected to the EU and GATT. This was the framework for the entrance conditions of the Eastern countries to the trade with Western Europe. Rules were given for both the EU and Visegrad according to the GATT, the CCP, and the earlier «first degree» trade agreements between the countries. Thus, the trade regime was strongly politicized. However, it was very restrictive due to the previous political climate between the parties. The anarchy we could observe occurred in the trade between the old CMEA partners, where the trade collapsed due to political disintegration. A political integration that was the glue in the former Eastern trade regime.

2. State acceptance of trade leverages as a tool of statecraft:

Trade is (often) the only tool available for the EU (Commission) to use in its relationship with third countries. Hence if the EU as an institution has foreign policy ambitions, the natural tool is trade leverage. The acceptance of trade leverage as a tool is mixed, but by experience it seems that the EU trade policy is marked by a will to use the power of trade, e.g. Eastern Europe pre 1989, Iraq and Yugoslavia. It has been used on several occasions to punish countries having other political systems or lacking respect of human rights.¹¹⁸ In some cases member states are also using their EU membership as leverage in their foreign policy.¹¹⁹

3. State autonomy in setting trade policy :

The Commission and the governments are experiencing much more autonomy vs. sub-national groups with the CCP. This is because the actors are less identifiable than in a national context. However, the member states autonomy is pooled with that of the other member states, thus their original autonomy is formally reduced.¹²⁰ One could perhaps say that their autonomy is increased toward third countries, given the advantage of pooling resources in trade negotiations, especially for the smaller EU states such as Denmark and Greece. Then CCP increases autonomy toward domestic groups and third countries, but reduces autonomy toward other member states and the EU bureaucracy. However there is an EU autonomy in relationship with third countries. The EU

¹¹⁷ Trade as a leverage with four factors used by Spaulding in analyzing German trade leverage from 1890 to 1990. Spaulding Jr. 1991:344.

¹¹⁸ Eastern Europe had very restricted access to EU. Turkey did not get their association agreement for a long time due to human rights and conflict with Greece. See Hine 1985.

¹¹⁹ We have resent examples from Greece's actions toward FYROM, and Italy's against Slovenia. In both cases the threat of non-agreement by the EU member states are used to force compensations from these countries.

¹²⁰ Whether the member states sovereignty is reduced or increased is a difficult question. In some cases as with Greece, it enjoys stronger leverage and influence than without membership. Germany will probably enjoy less, when all countries in the EU have the same rights. However the influence of Germany within EU is of course larger than that of the smaller nations. We also have to consider that the formal sovereignty of non-members is reduced as a consequence of the interdependence between the nations. Hence it is difficult to conclude whether sovereignty has increased or not.

has the freedom to define their own policy given the flexibility in GATT, and its own power as described earlier. This flexibility strengthens the autonomy of the EU as an actor in the process of establishing a trade policy.

4. State ability to selectively control imports and exports:

Any application of trade leverage rests on the (state) possession of a bureaucratic mechanism capable of screening imports and exports on a selective basis. It is difficult to measure this ability, but it is a condition in the CCT. The system is built upon such a control. A strong incentive for this control is that the tariffs are one of the financial assets to the EU. Therefore it must be taken for granted, even though it could be discussed closer. This underlying assumption, that all sovereign states either have or can produce such mechanisms overnight, should often be reconsidered. However, in this thesis I will and must assume that the EU and its member states have such an ability.

2.5.3. EU Trade Power

Even if the use of trade leverage is available to the EU in their common trade policy, there is still a question of capabilities and power if it is to be used with success. National economic performance provide an objective measure of each country's relative strength in a given trade relationship - the starting point for any policy of economic statecraft based on trade leverage.

Relative strength and trade vulnerability are most basically measured by the size of the country's gross national product (GNP) and by the ratio of imports and exports to the GNP, and are further delineated by a number of increasingly sophisticated indices designed to measure the degree of trade concentration on certain markets or sources of supply. By generating the proper indices, one can establish an objective measure of the relative economic strength of each country in a trade relationship. The power conferred by possession of certain strategic materials must be treated on a case by case basis.

The strength relationship between the EU and the Visegrad countries does not need such a detailed background analysis. It should be clear given the political situation, and the economic size of the EU compared to Visegrad, that the EU has a strong power asymmetry in its advantage. As we see in the table the EU is the biggest exporter in world trade, while the Visegrad (CEEC-4) has a minor role. The power asymmetry is also clear when we look at Visegrad's importance to the EU and vice versa in exports. In 1992 Visegrad had 5% of the EU's exports, while the EU had over 50 % for all the Visegrad countries.¹²¹ Even though the numbers are from 1992, there should be no doubt about the power asymmetry in the negotiations. If we include political aspects as well, then it is clear that the EU had the upper hand in the negotiations.

¹²¹ Heidensohn 1995:7.

Table A: Role of different partners in the external trade of CEEC 1989-1993

In %	Exports to		Imports from	
	1989	1993	1989	1993
Former CMEA	42,2	16,8	46,5	16,4
EU	24,5	48,9	20,8	48,9
EFTA	7,3	10,5	8,3	14,0
USA	2,6	3,2	1,5	3,9
Japan	1,0	1,5	0,7	2,0
Rest of the world	20,5	13,4	20,0	9,8
Total	100	100	100	100

Source: European Commission DG1. 6 February 1995. MG/NN/FW/vf

Table B. World export in merchandise excluding EU internal export

	1992
European Union	20,0%
USA	15,8%
Asian NIC (4)	12.1%
Japan	12,0%
EFTA	7,9%
Canada	4,7%
China	3,0%
CEEC (4)	1,3%
Russian federation	1,0%
Rest of the world	22,2%

Source GATT (1993a) in Heidensohn 1995.:7.

2.5.4 Summary of the Nature of the EU

This discussion has indicated that the use of trade leverage is a possibility for the EU. The discernible trend toward an increased role for economic influence and a declining role for military power in European affairs has been greatly accelerated by the removal of the Soviet military factor from European international relations. At the same time four decades of experience in restricting trade with the Soviet bloc and the need to maintain current controls on exports to certain countries should preserve the existence of a capable trade control bureaucracy in the EU. The ability to use trade leverage is difficult to measure, but with the assumption that the common trade policy is functioning, there should be good enough efficiency to secure the ability to control imports and exports.¹²² Hence both the capabilities and the influence of trade policy should be stronger than ever for the EU.

¹²² The decentralized character of the EU, could however create loopholes within the EU. Certainly it is confirmed that nation states have their special arrangements with external countries, such as Italy's and France's restrictions in their trade with Japan. See Hine 1985.

All the factors that are needed, according to Achesons criteria, are apparent under the CCP. This supports my hypothesis that the trade negotiations between the EU and the Visegrad must be studied not only from an economic perspective, but from a political perspective as well.

The conclusion should be that the EU has appeared potent enough in its trade policy to use it as a leverage in order to achieve its goals. The EU had the power advantage, and they had the ability and freedom to use it. The question will then be, did it have political motives to use it as leverage? This will be discussed closer in the preference formation chapters.

Chapter 3.0 The Theoretical Approach

«An empiricist approach amounts to no more than the adoption of somebody else's theoretical model without the researcher being aware of it». Stephen George.¹²³

This chapter will present the theoretical approach to this case study. The theoretical choice is an eclectic model based on LI and a security analysis based on traditional realism/mercantilism. We can use both the term eclectic or modified Liberal Intergovernmentalism to describe the theoretical approach. Modified LI because two of the dimensions are taken from LI, or eclectic because I use traditional independent theories together in the analysis.

I will go through some of the traditional theoretical approaches toward trade policy in order to get an overview of the field and an understanding of what the economic and political approaches can give us. The main argument will be that we need an eclectic approach that includes the elements of both economic and political approaches to trade policy. This can be found within the school of IPE. Both LI and realism can be connected to this school. Hence the eclectic theoretical approach chosen could be described as an IPE approach based on LI and realism.

3.1 Classical Trade Theory Approaches

«Under a system of perfectly free commerce, each country naturally devotes its capital and labor to such employment's as are most beneficial to each. This pursuit of individual advantage diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.» David Ricardo, (1772-1823), from «On Foreign Trade».¹²⁴

«In order to allow freedom of trade to operate naturally, the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated». Friedrich List. 1885.¹²⁵

«Trade is the oldest and most important economic nexus among nations. Indeed trade along with war has been central to the evolution of international relations»¹²⁶ There is historically two very different theories of international trade; the Liberal (Orthodox) tradition and the Nationalist (Mercantilist) tradition. The Liberal approach can be traced from Adam Smith and David Ricardo to today's Hecksher-Ohlin-Samuelson

¹²³ George 1991:20.

¹²⁴ Ricardo in Crane & Amawi 1991:74-75.

¹²⁵ List in Crane & Amawi 1991:48.

¹²⁶ Gilpin 1987:171.

*model and other neo-classical formulations. The Mercantilist approach is identified with among others the German historical school of the late nineteenth century.*¹²⁷

3.1.1 Liberal (Orthodox) Trade Theory

The Liberal approach is connected to Ricardo's law of comparative advantage, which is the fundamental rationale for free trade. The law of comparative advantage demonstrates that the flow of trade among countries is determined by the relative cost of the goods produced. The international division of labor is based on comparative costs, and countries tend to specialize in those commodities whose costs are comparatively lowest.¹²⁸ To make a long discussion short: Liberals have become more careful in their statements of free trade as the best policy for all actors in every case. «Comparative advantage is now regarded as dynamic and is also considered to be arbitrary and a product of corporate and state policies.¹²⁹ As the concept of comparative advantage has lost status, the argument for free trade has necessarily lost some of its efficacy and has become less relevant.»¹³⁰ Under certain circumstances free trade can actually be harmful.¹³¹ Despite the possibilities of manipulation of the comparative advantage, liberals cling to their belief that free trade in general is maximizing individual and international welfare through economic specialization. Hence they still tend to have a normative approach to the question of free trade.

3.1.2 Mercantilism

The politics of international trade is far more complicated than the Orthodox view of international trade. The lack of political insight is clear, especially concerning the distributional effects of free trade among nations and within the nations. In these matters, mercantilism gives us more insight and understanding of the logic of international trade.

Economic nationalists emphasize the costs of trade to particular groups and states. They favor economic protectionism and state control over international trade in order to avoid these costs. Their criticism of liberal theories can be summarized in three points: implications of free trade on economic development and division of labor, relative rather than absolute gains (distributional effects), and the effect on national autonomy and impact on domestic welfare. The view of comparative advantage as a dynamic factor in international trade points to «the possibility to manipulate the order of trade with a rationalization of existing international division of labor and a trade policy that encourages the development and preservation of domestic industry.»¹³²

Mercantilism draws heavily on the Realist view of a conflictive world arena that requires a constant concern for national security considerations.¹³³ A contrast is that Mercantilism focuses more narrowly on issues of economic policy, and therefore potentially generates additional insight (compared to Realism) into government approaches to specific trade policy matters. Mercantilism is often connected to the major state strategies in the seventeenth and eighteenth century. Then the main objective was to maximize the states wealth relative to that of other states and thereby increase its power and security. This in turn would enhance the opportunities for increasing wealth.¹³⁴ The pursuit of wealth was thus viewed as a zero-sum game. Although Mercantilists today tend to recognize that

¹²⁷ Gilpin 1987:172.

¹²⁸ Samuelson 1989:902

¹²⁹ Gilpin 1987:178.

¹³⁰ Ibid. 1987:178.

¹³¹ Gilpin 1987:179.

¹³² Gilpin 1987:182

¹³³ Haus, Leah H. 1991:165.

¹³⁴ Viner, 1948:10.

there can be mutual gains from trade, they nevertheless place more emphasis on the distribution of these gains among nation-states than do proponents of liberal trade analysis.¹³⁵

3.1.3 Mercantilism at a Sub-National Level

By identifying their interests with national interests, producers threatened by imports obtain the right to employ the power of the state on their behalf. The state at their request uses trade barriers to constrain foreign competitors or even eliminate them from their markets. Not only do industrialists find an interest in tariffs, politicians and the bureaucracy are also quite interested in them. Activities that enhance the powers of the state are seen as positive by them. Mercantilism helps building nation-states and national identities. The idea is that an opportunity given to a foreign producer must be offset by an equal opportunity offered by foreigners to domestic producers. The notion «our markets» indicate that it is collective property.¹³⁶ Consumers do not, therefore, have a right to spend their incomes on what foreigners produce. This is a privilege they may sometimes be granted. By stressing the solidarity of consumers with the producers of their own geographical area, a sense of mutual dependency is created and enhanced. In this way Mercantilist attitudes provide an ideological underpinning for enhanced state power, one that involves dividing the world into «us» and «them», with us being the citizens of the state and «them» being the rest.

3.1.4 Insufficient as a Theoretical Approach

Clearly a trade negotiation between the EU and Visegrad builds on both these traditional approaches to international trade. However, they are both far from sufficient to get an understanding of the factors behind the outcome of such a negotiation. The Liberal approach is the basis of much of the understanding of the implications of international trade, but it is also the most distanced from the influence of politics in international trade. Regarding the influence of politics, the Mercantilistic approach is more relevant. Mercantilism (Economic nationalism) does not oppose the logic of liberal trade theory. It points at political effects of free trade that are not connected to economic formulas, but to the fight of power between and within states. As a consequence, there is a widening of liberal trade theories to include politics as well. Henceforth it is more fruitful when used in the analysis of trade negotiations which are headed by political delegates, and not economic scientists. Still the theoretical assumptions found in the classical mercantilist theories is too simple to be used on today's economic and political structure in Europe. It must be combined with more advanced political theories connected to the special environment that surrounds the main actors in the economic negotiations in the present situation. However the major problem is that they both tend to be reductionistic in their explanation, because they neglect the interaction between economy and politics. What we need is an approach that opens up for both factors at the same time. Still some wisdom may be taken from these two theories.

3.1.5 What can be Gained from the Economic Approach?

An analysis of the negotiation and outcome of a trade agreement between the EU and Visegrad with classical trade theories can give us the following understanding:

1) General motives and effects of free trade

The economic effects of free trade between the two regions will be positive. There are no systematic evaluations of the welfare effects of a free trade agreement.¹³⁷ However, the general effect of an integration of an economically small region with an economically large region is that both experience gains, but the small region gains more than the larger region.¹³⁸ «Moreover when a low wage/low productivity region and a high wage/high productivity region integrate, most of the large region's gains come from cheaper imports of labor intense goods

¹³⁵ Haus 1991:166.

¹³⁶ See Wolf, Martin 1995 «The EU in a liberal global economy»

¹³⁷ Rollo & Smith 1993.

¹³⁸ R. Baldwin 1994:476.

such as clothes and shoes.»¹³⁹ This points to the fact that the EU's gains will have a more consumer oriented character, while Visegrad's will be more concentrated on producer gains. However, Baldwin has estimated that the growth in EU exports to CEECs would grow with double digits for decades in a free trade situation.¹⁴⁰ Attali, the director of EBRD, stated that «expanding the market to another 100 million consumers, would be a bonanza for West-European exporters».¹⁴¹ If one accepts the fact that a free trade agreement will give absolute gains for all parts, then there is no doubt that there are strong general economic motives for both parts in creating a free trade agreement between the two regions when the economy is viewed as a whole. This is what the traditional «Orthodox» approach can help us to understand.

2) Distributional effects of free trade

Depending upon the economic structure of both the EU and Visegrad there will be distributional effects of free trade. There will be some losers, others without any effects, and some winners among the economic actors. The actors are the consumers, producers, and the states. Most of the consumers will earn from the increasing competition in the market. The producer effect will be dependent upon the economic structure of the involved countries, and the state effect will depend on their share and accumulation of certain producers in their countries. Table C. Shares of sensitive sectors within EU member states (% of value-added in manufacturing).

	Metal	Chemical	Textile	Sum
Germany	9,4	11,3	4,3	24,9
France	6,2	9,5	6,7	22,4
Italy	6,5	9,5	14,3	30,4
Netherlands	4,2	15,5	3,3	23,0
Denmark	3,0	23,9	0,0	26,9
Belgium/Lux.	15,7	10,4	8,4	34,5
Ireland	0,6	4,6	1,8	7,0
Greece	5,5	5,1	10,2	20,9
UK	3,4	8,1	4,7	16,2
Spain	11,2	8,2	7,4	26,8
Portugal	1,9	7,3	13,7	22,9

Table from Rollo & Smith. (Sources Eurostat, Regional accounts ESA, 1982, Yearbook of regional statistics 1984.)

It is easy at a macro-level to understand which sectors will be most sensitive for both parts in a forthcoming free trade agreement between the regions. These sectors are the ones where important producers in each region have a comparative advantage in the pre free trade situation.¹⁴² If we look at table 3, it is evident that the effect of free trade on agriculture is stronger than the effects on manufacturing.

¹³⁹ Ibid. 1994:476.

¹⁴⁰ Baldwin 1994.

¹⁴¹ Quoted in Baldwin 1994:475.

¹⁴² Rollo & Smith 1993, identifies five sectors based on the two-digit R25 version of the NACE classification. The sectors are 1) ores and metals, 2) chemicals, 3) textiles, 4) agriculture and 5) food processing.

Table D. Regional producer losses (ECU millions) with free trade.

	Industry	Agriculture	% of GNP
EU	1,267	3,741	0,16
Greece	17	197	0,55
Ireland	10	70	0,37
Portugal	5	54	0,22
Netherlands	62	265	0,22
Spain	30	408	0,21
Italy	187	911	0,21
Denmark	9	120	0,20
France	157	859	0,16
Belgium	62	85	0,15
Luxembourg	2	4	0,14
Germany	538	471	0,13
UK	190	296	0,09

From Rollo & Smith 1993:164.

The average loss to producers of agriculture is three times the loss of manufacturers of sensitive goods, so it is not surprising that the regions suffering the biggest impact are those which are most exposed to agriculture. Greece is most the exposed to producer losses, followed by Ireland, Portugal, the Netherlands, Spain and Italy. The UK and Germany (West) are the least exposed. However, we can also identify special regions within EU countries which are of interest in a more politically oriented analysis, e.g. some French regions (Bassin Parisien & Ouest) are very exposed.¹⁴³

Naturally this was the expected distribution of benefits of interest to the actors involved in the negotiations. It must be expected that the actors will be divided in their preferences toward free trade, and that this will have implications for the negotiations and the outcome of these negotiations. However when we shall analyze these matters it is important to have a more political approach to the analysis. The game of power is not present in liberal orthodox theory. Mercantilism stretches toward a political analysis, but it is not sufficient as an analytical tool. It indicates some expected preferences among the actors, but we need to go deeper in to the political reality of the EU in order to understand the negotiation process.

What we must bring with us to the political analysis is the importance of the economic structure, and the expected influence on the existing trade, when free trade is introduced (Liberal). In addition the distributional effect (Mercantilism) within and between states must be introduced in combination with the more political theoretical approaches. Of these two classical approaches Mercantilism is by far the most competent in my case due to the political understanding in the theory. One major problem with Mercantilism is that it views the economy as dependent upon the political considerations, and does not accept the opposite relationship. This is a major

¹⁴³ Rollo & Smith 1993:164.

problem with traditional Mercantilism, and this forces us to look for other alternatives in the theoretical approach.

3.2 International Political Economy (IPE)

International Political Economy suggests a focus on phenomena that lie at the crossroads of the traditional fields of political science and economics. It seeks to explain how political power shapes economic outcomes and how economic forces constrain political action. Keohane defines IPE as «the intersection of the substantive area studied by economics - production and exchange of marketable means of want satisfaction - with the process by which power is exercised that is central to politics.»¹⁴⁴

IPE is not an amalgam of the two traditional fields, rather it is a synthesis. It is implicitly a critique of the scope and methods of both economics and political science.¹⁴⁵ To the political economist, assumptions and numerous «exogenous» variables rob neoclassical economics of its explanatory power. Likewise, much of political science pays insufficient attention to how economic processes and structures might influence the play of power. By contrast a theory of IPE should be judged precisely by how well it explains the interaction of politics and economics.

IPE theories are mainly focused upon activities taking place among international actors: states, global corporations, industrial organizations and so on. IPE can partly be seen as a response to the perceived weaknesses of Realism and economics. A significant portion of IPE looks within the states in contradiction to Neo-realism (*Waltz*). The boundary between the intra-national and the international is not rigidly fixed in the IPE literature.

It is difficult to define exactly what IPE is because the lines between economics and political science are blurred, just as the lines between the international and intra-national domain. A number of categorizations exist, but Gilpin's three classifications (The Nationalist (Mercantilist), Liberal and Marxist schools) are most used. The problem is that even these boundaries are blurred in the new development within IPE.

Gilpin himself prefers liberal theory, but accepts the validity of both Marxism and mercantilism.¹⁴⁶ Such eclecticism has been more common in later developments in IPE theories. The recent developments have given rise to theories such as rational choice analysis, regime theory and hegemonic stability. These are mixtures of Gilpin's three classifications, and are used variously by representatives of the different schools.

This type of eclecticism will be attempted in this thesis's theoretical approach. I emphasize the connections between security and economy.¹⁴⁷ My theoretical proposal will be liberal in level of analysis, but I use this to indicate restrictions (mercantilism). This will be combined with realism in the analysis, but in an effort to explain free trade, as well as protectionism. Hence this thesis is both traditional and non-traditional in its approach to find the analytical key to EU trade policy toward the Visegrad countries. However before I concretize the theoretical

¹⁴⁴ Keohane «After hegemony» 1984:21.

¹⁴⁵ Toose, Roger. Quoted from Crane & Amawi 1991:4.

¹⁴⁶ Amawi 1991:5.

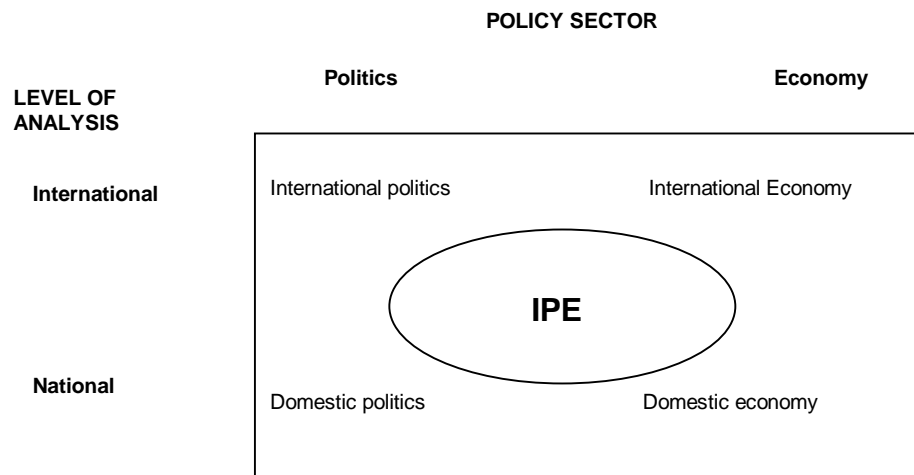
¹⁴⁷ This division of security and economy in IPE, is normal, and has been an approach to avoid some of the most hurting criticism from the realist school. See Mearshemier 1994/95.,

approach, I will use some effort to explain the background of the theoretical choice. This will be done with a presentation of traditional approaches to the study of trade policy.

3.3.1 Placing the Study within the Limits of IPE

Vital questions of the contemporary world lie within four previously distinct domains; international politics, international economics, domestic politics and domestic economics. With the gradual opening of these distinct domains, IPE has earned the reputation of being a heterogeneous and open-ended research tradition.¹⁴⁸

Figure B. A description of IPE.



The integration of the four earlier distinct domains has been to the advantage of the international economy, since most approaches tend to be dominated by this domain. Within this international economy, states are viewed as the primary actors. There is also a tendency to view free trade as the most ideal goal in the international economy, a view inherited from liberal economics. IPE has been concentrating on system management; how the states could achieve a stable international system of free trade. Much of the IPE has been further dedicated to the study of international regimes with a normative view. In their world of objective knowledge and rational state action, it is more natural to ask «how certain state goals may be achieved», than how and why these goals are formulated. This lack of a preference formation understanding is the consequence of such reductionism. Preference understanding is central in the theory proposed in this thesis, and a central argument in LI. The major critique of IPE could be summarized as this:

IPE ontology (what should be studied), is accused of «privileging certain issues within a universe that is constructed so as to exclude a number of other important questions and issues».¹⁴⁹

IPE methodology (how it should be studied) explain all events «in terms of rational action of individuals or of state actors treated as individuals - a commitment to a relatively radical form of methodological individualism that denies ultimate validity to contextually bound explanations as well as explanations in terms of concrete social wholes»¹⁵⁰

¹⁴⁸ Tooze & Murphy 1991:18

¹⁴⁹ Tooze & Murphy 1991:24.

¹⁵⁰ Ibid. 1991:19.

IPE epistemology (how knowledge is acquired) is positivist, denying that beliefs and values are themselves just as real as the material structures and powers of the global political economy.¹⁵¹

Tooze and Murphy¹⁵² state that the most promising parts of IPE, are the studies that challenge the «orthodoxy of IPE». My study will challenge the orthodoxy of IPE, but at the same time it has a natural position within the borders of IPE. First of all, it is difficult to accept the EU as a regime which is only a result of «how certain state goals may be achieved», without considering how values and beliefs have influenced and still influence how the EU functions. This is also a modification of the LI view of the EU. Second, it is necessary to understand the formation of goals, and to understand their divergence or congruence before we discuss how these goals may be achieved. The goal of free trade is not a normative goal in my approach, although the discussion will concentrate on the tendencies diverging from free trade policy in the negotiation of the EAs. Since the norm of free trade seem to dominate, then I find it most interesting to explain why the outcome differs from this goal. My view is that the degree of protection in international trade is a political question. Thus the equilibrium of international trade should and will be a function of several variables other than the macroeconomic or microeconomic explanations. Much of my expansion of LI is funded on the need for more variables to be taken into consideration by the decision makers. This is for me both normative and descriptive, since I assume that this is already happening in the formation of EU trade policy, and that this will and should continue.

The importance of international economics is, of course, easily detectable in this study. However, the same can be said about international politics and sub-groups of national economy. Of the four domains, national politics will be the least mentioned. However there are clear connections between the fields of economics and politics at both national and international levels. This is in fact the whole point of the IPE approach, both at national and international levels of analysis. This study will include as many domains as are necessary to give a good picture of the process, and this will be done on different levels of analysis and in different fields of study. Liberal Intergovernmentalism is a natural development from integration theory, at the same time as it can be described as an IPE theory, given its combination of political and economic approaches to the study of intergovernmental bargains within the EU. Thus, I follow the principle of an integration of previously separate domains. Given these considerations I feel that this study can be described as being within the tradition of IPE, but not as being an «Orthodox» IPE approach.

3.3 The Theoretical Background of Liberal Intergovernmentalism

This section presents some of the theoretical background for my approach. This will include a section on liberal theories, integration theory, and Moravcsik's Liberal Intergovernmentalism. The purpose is to summarize the development, and to bring today's theoretical challenges into focus before I introduce the main theoretical tools and my own comments on Liberal Intergovernmentalism.

¹⁵¹ Ibid. 1991:18.

¹⁵² Ibid. 1991:18.

3.3.1 Liberal Theories

Liberal international relations theory is critical of realism's emphasis on the anarchy in the relations among states. Liberals stress that states are not similar; they differ in their institutions, policy networks and dominant political coalitions. Interests are constructed not given, they derive not only from considerations of geopolitical position but also from material interests and conceptions of principle as interpreted through varying domestic political structures.¹⁵³ To understand the politics of the states, one needs to understand the distinctive features of their institutions and policy networks, and how they are connected to each other through interdependence. Clearly we can see that this stands for an opening of the «black-boxes» of neo-realism when it comes to the preference formation of the states.

3.3.2 Institutionalism

Institutionalist arguments focus neither on the structure of the international system, nor on the interactions between domestic politics and international relations. The principal institutionalist focus is that an increase in the ability to communicate and cooperate between the states can provide opportunities for redefining and for pursuing different strategies. «International institutions can facilitate such a process of cooperation by providing opportunities for negotiations, reducing uncertainty about others policies, and by affecting leaders expectations about the future. Thus international institutions can affect the strategies states choose and the decisions they make.»¹⁵⁴

Hence there are dimensions from liberal international relations theory and institutionalist theory that should be included in the understanding of EU trade policy toward Visegrad after the cold war. The Liberal and Institutional approach have been combined in the Liberal Institutional approach which is one of the major theoretical alternatives to Realism. Liberal Institutionalism or neo-liberal institutionalism is characterized by many perceptions similar to Realism. The main actors in the international system are rational and unitary states; the system is anarchic since there is no supranational authority or actors with system-wide authority; the states actions and motives are formed by the anarchic character of the system, but «world politics, although not formally organized, is not entirely without institutions and orderly procedures».¹⁵⁵ The international system is partly organized by institutions, and these institutionalized parts have created behavior which is accepted by the states as established rules, norms and conventions. Variations in the strength of institutions may have an impact of the states behavior. «It does not assert that states are always highly constrained by international institutions. Nor does it claim that states ignore the effects of their actions on the wealth or power of the other states. What they argue is that state actions depend to a considerable degree on prevailing institutions.»¹⁵⁶ The main difference from Realism is the view of the influence of institutions, and the possibilities of cooperation between member states since institutions are believed to strengthen the possibilities for international cooperation.¹⁵⁷

As far as I can see, there are good reasons to include aspects from liberal theories in an analysis of the trade negotiations between the EU and Visegrad. Much because of the strong position of the EU, especially in the field of trade (CCP), and the increasing interdependence between the states. The interdependence increases the role of the interest groups in the economic issues of international politics, and no issue is more sensitive than international trade.

¹⁵³ Keohane & Nye 1977: 4.

¹⁵⁴ Keohane & Nye 1977:5.

¹⁵⁵ Keohane 1989:2.

¹⁵⁶ Keohane 1989:2.

¹⁵⁷ Grieco 1988:486.

3.3.3 Integration Theory

Since this thesis subject is concentrated on the EU and the phenomena of regional integration in trade, I find it natural to connect the discussion to the traditional integration debate that has followed the EU development since the early fifties.¹⁵⁸ Thus in order to give a proper picture of LI, I find it necessary to introduce its theoretical origins from integration theory. Integration can be defined as the process by which nation states transfer parts of their autonomy to a common institutional framework in order to allow for common rules or policies.¹⁵⁹ The first theoretical attempt to grasp this process was the school of neofunctionalism. This was very much built on the works of Ernst B. Haas «Uniting of Europe» in 1958 and his «Beyond the Nation-State» in 1964.

Neofunctionalism expects functional linkages between policy areas to yield progress in the integration.

Integration in one sector is hampered by non-integration in another sector that is adjacent (i.e. functionally linked). Neofunctionalism argues that integration is a spillover process, not requiring a pro-European attitude on the part of all governments. Neofunctionalism focused on non-state actors, especially the Commission, and its role as the organizer of the process, while the interest group was viewed as a catalyst of the process. As Scheingold and Lindberg said it «the community potential had to be activated» (by the Commission).¹⁶⁰ It rejected the power orientation of realism, instead they advocated a strategy of institutionally supported incrementalism.

Neofunctionalism was left in misery by its funding fathers in 1970. «Understanding of this period (after 1970) will hence probably require the construction of new models and new theories» wrote Lindberg & Scheingold.¹⁶¹

Among the arguments were that the theory had miss-predicted the development from 1965. The presence of dramatic actors as Haas termed it, shifted the development to a stable intergovernmental configuration that lasted way in to the eighties. From then on the Single European Act disturbed the picture of intergovernmentalism and its strength in explaining the EU.

Again EU politics gained more attention from the political scientists, and the old ideas from Neofunctionalism once again appeared in the discussion. But the determinism that had been in the beginning was left behind, and the concept of spillover was only used as a partial explanation of integration.

3.3.3 Intergovernmentalism

The general theoretical approach to integration that normally is viewed as the alternative to neo-functionalism is Intergovernmentalism. Moravcsik is one of the central contributors to this approach. Even though his Liberal Intergovernmentalism must be viewed as a mixture of several theoretical approaches it still gains its essential logic from Intergovernmentalism, namely state bargaining. Intergovernmentalism puts emphasis on the governments preferences and the negotiations between them. It recognizes that the community emerged from the self-help based international system, and emphasizes the continuing central role of the member states. This emphasis on the governmental actors puts the theory in line with realism.¹⁶² Intergovernmentalism restores the autonomy of the state, and has been created as a reaction toward the failure of neofunctionalism in explaining the loss of integration in the end of 1960s and further up to our time. The member state preoccupation with sovereignty is the reason why the integration stagnates. Only in cases where preferences converge will integration occur. Intergovernmentalism conceives of the EU as an international institution among many others and it tends to disregard the specifics of this particular institution; thus, it must be described as a general approach.

The EU is not expected to alter interstate relations; state power is as relevant as ever.¹⁶³ The problem of non-integration is well explained by intergovernmentalism, but its challenge is to explain integration. Its critics will say that Intergovernmentalists emphasis on external cyclical economic developments is not adequate to explain the convergence of preferences. Even if there is a weak congruence between economic prosperity and integration,

¹⁵⁸ ECSC started in 1952, while EEC and Euratom came in 1957. In 1968 they were integrated in one structure, very similar to today's structure. Today's pillar one represents the old EC, while pillar 2 and 3 were added at the Maastricht meeting in 1991.

¹⁵⁹ Corbey 1995:254-55.

¹⁶⁰ Lindberg and Scheingold quoted in Corbey 1995:256.

¹⁶¹ Lindberg & Scheingold 1970.:36.

¹⁶² Corbey 1995:259.

¹⁶³ Ibid. 1995:259.

integration could as well occur in an economic downturn.¹⁶⁴ Moravcsik's Liberal Intergovernmentalism is by far the most advanced integration theory with the basis in intergovernmental thinking. The reason is that he accepts much of the criticism, while he insists upon keeping the elements of intergovernmental theory.

3.4 Liberal Intergovernmentalism

I will in this section present the theoretical approach I believe best suited to analyze the process and the outcome of trade negotiations in the context of the EU-regime. Liberal Intergovernmentalism is a theory presented by Andrew Moravcsik in «Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach.» The theory is an attempt to explain the evolution of the EU from the treaty of Rome to Maastricht. The theory is intended to be used in a slightly different manner. My use of it is to explain the bargains made in connection with the European Agreements made with the Visegrad countries in 1990-1991.

I find it legitimate to use the theory on this bargaining process because the decision making procedure is almost similar to those in an IGC, which LI is made for. The EAs had to be ratified in each member country just as constitutional changes have to. Hence, it was decided with the right of national veto and the assent of the EP.

This illustrates the strong role of the state in the decision making structure, and this is a main point in LI.

Moravcsik claims that LI can «provide a solid foundation for explaining agricultural policy and industrial trade liberalization, as well as socio-economic public goods provision within the EC.»¹⁶⁵ This is connected with the preference formation of the states in his theory. The supply function gives us the analysis of the intergovernmental bargaining between the member states. The only change in the supply phase will be the addition of an external negotiation by the Commission on behalf of the community. However, these negotiations were of secondary importance given the power asymmetry in favor of the EU. Except for this, there is the same decision-making structure during external trade negotiations as there is in the intergovernmental conferences creating institutional development, and there is no reason why the theory should not be used on analysis of trade agreements with third parts. As an empirical illustration: the European Agreements between the EU and the Visegrad countries were signed at the intergovernmental conference in Maastricht the day after and by the same procedure and decision-makers as in the Maastricht treaty.¹⁶⁶ Hence I find it legitimate to use LI in the attempt to explain the process behind and the outcome of the EAs with Visegrad.

The main procedure in these negotiations is intergovernmental in nature, and as mentioned, this makes Moravcsik's approach valid for the analysis of trade agreements. However, I will emphasize that Moravcsik's theory in some fields is too minimalist to be used to illustrate these cases. That is partly because it will be used on a matter that naturally belongs to the relationship toward third countries, and partly because Moravcsik has a too narrow view on the EU's influence in the choice of strategies and the special external environment's influence on the actors preferences. It must be said that the context of the negotiations was quite unique, given the rapid disintegration of Eastern Europe. Consequently, I propose to use the theory as an organizing concept with which I can connect the modifications I feel necessary to give an acceptable analysis of the phenomena. The main effect of LI will be that I adopt the dynamics of the LI; the preference phase (demand) and the negotiation phase (supply), while some of its assumptions will be avoided. For instance the LI focus on institutional

¹⁶⁴ Ibid. 1995:259.

¹⁶⁵ Moravcsik 1993:517

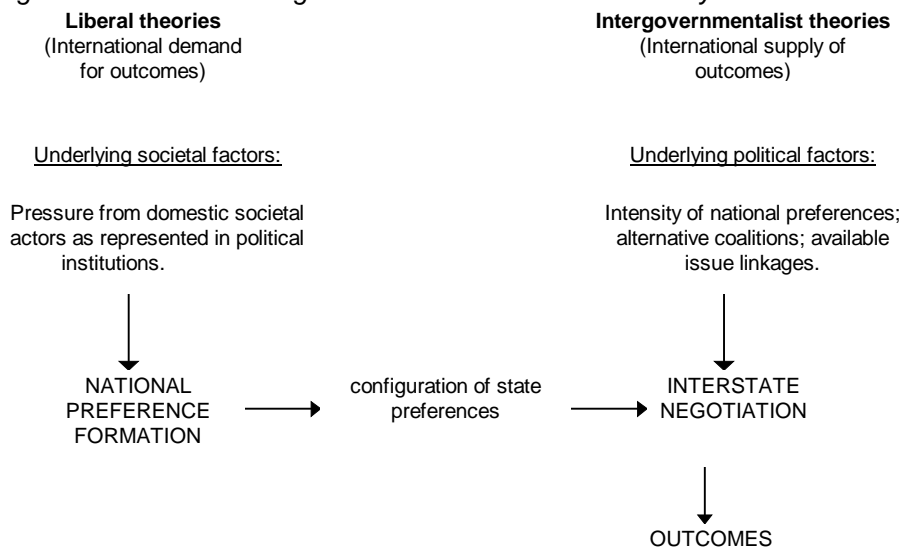
¹⁶⁶ Interview with Agnes Hargita, Hungarian Foreign Department, in Budapest 12.06.96.

development and the relationship between supranationality and intergovernmentalism will be neglected in this thesis. Only the relevant parts of LI will be used in this case.

3.4.1 «Preferences and Power in the European Community. An LI Approach»

The theory is separated into two parts, the liberal (demand) and intergovernmentalist (supply) phases. The demand phase is where the preferences of the main actors, the member-states, are created. The supply phase is the phase where they negotiate within the rules of the regime to get an outcome, which is seen as the supply from the regime (EU).

Figure C. The liberal intergovernmentalist framework of analysis

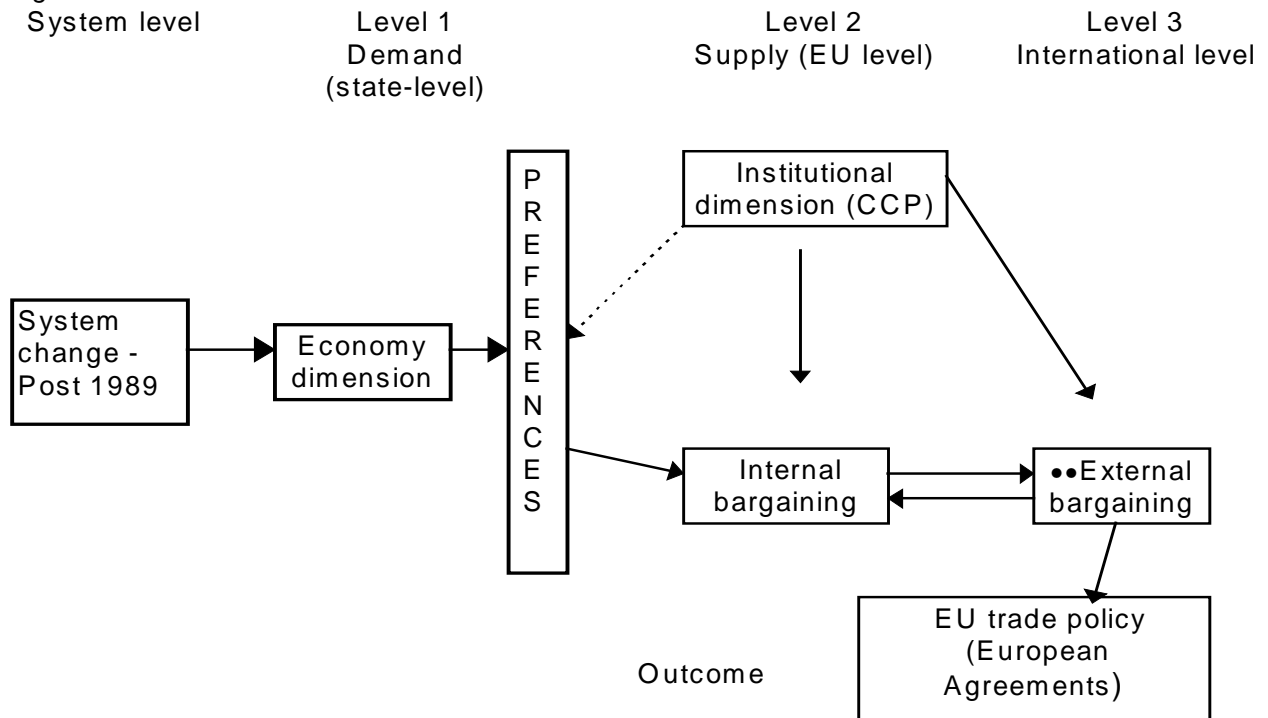


Source: from page 482 in Moravcsik 1993

The national preferences are created by «pressure from domestic societal actors as represented in political institutions».¹⁶⁷ This is brought into the interstate negotiations where the outcome will depend on the relative power and strategies taken by the states. The outcome can be described as the supply of the system in response to the demand. The structural logic of LI could be transferred and presented as such in the case of the EU trade negotiations with Visegrad in 1990-91. The preference formation (demand) is influenced by economic events that have and or are expected to take place. These preferences are taken to the regime (supply) in order to create a common policy that will be used in the asymmetrical bargains with Visegrad. Since this structure of LI can easily be adopted to this special context, I find it very useful in the case study of EU trade policy toward Visegrad. The external ?? negotiations are a change of LI, but in this case, it will be of less importance and subordinated to what is happening in the internal EU negotiations given the power asymmetry. The external negotiations will, in fact, also occur at the same time as the EU negotiations goes on given the constant need for adjustment in the mandate to the Commission.

¹⁶⁷ Moravcsik 1993:482

Figure D. An LI model of the EAs



3.4.2 Rationality, Demand & Supply.

At the core of Liberal Intergovernmentalism there are three essential elements: the assumption of rational state behavior, a liberal economic theory of national preference formation, and an intergovernmentalist analysis of interstate negotiations. The rational behavior suggests that the costs and benefits of economic interdependence are the primary determinants of national preferences (Demand). The relative intensity of national preferences, the existence of alternative coalitions, and the opportunity for issue linkages provide the basis for an intergovernmental analysis of the resolution of distributional conflicts among governments (Supply). The foreign policy goals are viewed as varying in response to shifting pressure from domestic social groups whose preferences are aggregated through political institutions. Therefore, «an understanding of domestic politics is a precondition for, not a supplement to, the analysis of the strategic interaction among states.»¹⁶⁸ International conflict and co-operation can thus be viewed as two successive steps: governments first define a set of interests, then bargain among themselves in an effort to realize those interests. This can be described as the demand and supply phase of international co-operation.

The linkage of these two explanations gives a connection between the domestic preferences and the strategic context in which states interact. «The interaction of demand and supply, of preferences and strategic opportunities, shapes the foreign policy behavior of states».¹⁶⁹ Thus, Liberal Intergovernmentalism integrates two types of general international relations theory often seen as contradictory: 1) a liberal theory of national preference formation and 2) an intergovernmentalist analysis of interstate bargaining and institutional creation. This gives us most of the theoretical equipment we need for an analysis of EU trade policy. This view of preference formation divides LI from realism. LI does not focus on positional advantages, nor does it derive state

¹⁶⁸Moravcsik 1993:481.

¹⁶⁹ Moravcsik (1993) emphasizes that there is also a domestic demand and supply within the domestic definition of the demand function. However, this theory is concentrated upon the EU, and not the deeper investigation of domestic political structures.

interests from the structure of the international system. Moravcsik supplements a cooperation under anarchy approach with a second level of analysis at which state interests are generated. However only states are assumed to bargain at the community level. The theory must also be viewed to be static since it does not include a feedback mechanism that would open the approach to influence from the established institution on the later generation of actors interests. It lacks a time perspective and with that the perspective of learning.¹⁷⁰

3.4.3 Sui Generis?

Moravcsik claims that the EU can be analyzed as a successful intergovernmental regime designed to manage economic interdependence through negotiated policy co-ordination. The whole rests on the assumption that state behavior reflects the rational actions of governments constrained by domestic (sub-national group) societal pressures and abroad by their strategic environment. He accepts that the EU is a unique institution, but not that it requires a theory *sui generis*, as the earlier Neo-functionalists claimed.¹⁷¹

In the language of modern theories of IPE, this implies that the EU should be treated as an international regime designed to promote policy co-ordination.¹⁷² «The substantive and institutional development» of this regime is best explained «through the sequential analysis of national preference formation and intergovernmental strategic interaction.»¹⁷³

3.4.4 Summarizing Liberal Intergovernmentalism

My theoretical framework is built on the logic of LI in the description of the institutional development bargaining within the EU. The starting point of LI is the global economy, and the structural pressure it gives the states. Sub-actors transmit the global realities to national preferences. The result is a demand for a regional policy as a response to the global realities. The EU, thus, becomes a regime that creates the supply for the states, and the local groups. Local groups are mainly considered to be producers in the economic sector.

Given the difference between an association agreement (trade agreement) and internal intergovernmental bargians, I cannot apply the theory presented by Moravcsik as it is. I will generally criticize the theory for being too limited in its view of externalities that might influence the states preferences. Moravcsik focuses solely upon the economic interdependence motivation when he is explaining European integration. EU trade policy is highly politicized, and this makes it advisable to look after political explanations in their trade agreements. Traditionally

¹⁷⁰ This lack of a time perspective, the static view of the supranational elements, the institutional bargaining and the limitation to economical originated preferences is the main division of LI from Haas 1964 which is perhaps the most useful neo-functionalist approach. See Sæter 1993.

¹⁷¹ «Although the EC is a unique institution, it does not require a *sui generis* theory.» Moravcsik 1993:474. Haas himself has accepted that the study of regional integration should be both included and subordinated to the study of changing patterns of interdependence, See Haas 1975.

¹⁷² International regimes promulgate «principles, norms, rules, and decision-making procedures around which actor expectations converge» in a given issue area, through which «the actions of separate individuals or organizations - which are not in pre-existing harmony - (are) brought into conformity with one another through a process of negotiations.. often referred to as policy-co-ordination.» Krasner 1983:1., Keohane 1984:51.) The problem is that contemporary regime theory lack the refinement to take account of the unique institutional aspects of policy co-ordination in the EU. In fact I find the traditional regime definition of Moravcsik too vague to be used fruitfully on the EU. An alternative definition is «a set of rules that stipulate the ways in which states should cooperate and compete with each other». (Douglas C. North and Robert P. Thomas 1970:5), quoted in Mearsheimer 1994/5:8. This prescribes acceptable forms of behavior and unacceptable forms of state behavior.

¹⁷³ Moravcsik 1993:480.

the field of economics has avoided such types of analysis, given economists presumptions of rationality (utility-cost). This is also the case with LI given its emphasis on a liberal preference formation.

My approach will seek for political explanations behind the EU trade policy, while simultaneously recognizing the strength of the economic analysis in these types of studies. As a consequence much of the logic behind my economic preference formation analysis will build on this traditional type of economic analysis. This will not be the case with the political preference formation and the institutional approach, which will be more marked by traditional political science.

Thus, the theory will be widened in order to catch the factors I view as central in the analysis of EU trade policy toward the Visegrad countries. Hence where Moravcsik uses only IPE as an explanation of national preferences, I will use security as a complementary or competing factor in the preference formation toward a trade agreement. Moravcsik uses the term «strategic environment», and within this notion I argue that one could easily expand the notion to include the influence of security questions without destroying the logic of Liberal Intergovernmentalism.

Second, I will dispute Moravcsik's view of the EU institutions as solely an instrumental tool for the nation states, in other words, a strongly intergovernmental view of the EU. LI has a very functional view of the EU, and it is disputed by among others Keohane & Hoffmann.¹⁷⁴ Henceforth, I argue that the use of institutional theory is necessary in order to reveal the influence of the institutions in the internal negotiations.

Thus, I end up with accepting the basic dynamics of LI, while expanding its dimensions. The dimensions are somewhat in conflict with each other regarding the influence of the free trade agreement, but also overlapping given their difference in level of analysis. Thus, it only mirrors the central point in the EU, which is that the expansion of decision making to a higher level, without giving up traditional national decision making structures creating contradicting forces in policy formation. This dilemma is especially strong in the fields of issue where the EU as a regime is at its strongest, as in the CCP. The last point in the theory chapter will be to present the last theoretical dimension needed in the analysis.

3.5 The Political Modification of LI.

The political importance of the EAs makes it natural to include a political preference analysis in order to reveal other factors that may explain the negotiations and outcome of the EAs. The proposed theoretical nature of this political preference analysis is to use Realism. The use of realism/neo-realism in a political preference analysis in the question of trade related issues brings us very close to the classic mercantilist approach to trade analysis. However, the use of both the liberal and the political preference analyses in this case indicates the blurred relationship between the field of economics and politics. This political preference analysis is also inspired by mercantilism, but it also breaks with mercantilism because of its neglect of politics as being superior to economic influence. The use of both a liberal approach and realism/mercantilism approach defines this case as an eclectic study.

¹⁷⁴ Keohane & Hoffmann 1991:10. «Yet the flexible and dynamic EC is much more centralized and institutionalized than a regime... It has gone well beyond any known international organization»

3.5.1 Theories of Realism:

World politics is a conflictive and competitive arena in which the distribution of power determines outcomes. States are regarded as the key actors in this self-help or anarchic system. These interests are based upon power considerations. Given the uncertainty of anarchy, there is a constant concern for relative power position and national security.¹⁷⁵ Realism and neo-realism build on five building blocks¹⁷⁶:

1. States are the most important actors in the world-system.
2. The international environment will punish states if they do not protect their vital interests. The states are cost-sensitive unitary rational actors.
3. States actions and motives are molded by the international anarchy.
4. States main priorities are power and security. Hence they are highly disposed to competition and conflict.
5. International institutions have only a marginal effect on states possibilities for international cooperation.

There is an assumption that security concerns are primary in foreign policy. Henceforth, goals arising from security interests will weigh heavily in Western calculations during negotiations with the East. In the bipolar structure of international politics which lasted to the end of the 1980s, there was no doubt of the relationship between East-West trade and the question of national, regional and global security. The lack of proper trade relations between the regions must be explained by the cold war emphasis on political and military issues. Trade was a tool that was subordinated to the security policy, and realism/neo-realism could very well explain this phenomena. Thus mercantilism was viewed as a tool to enhance the states overall security in the cold war given the correlation between relative wealth and relative military power. The old position (pre 1989) can be described as this: there were incentives to trade with the Eastern countries, because trade could diversify the WP (Warsaw pact). However, there were also restrictions because of the fear that trade could give the WP technology and economic surplus that in the end could strengthen their military power. This careful strategy with few trade concessions to a few countries represented the cold war strategy. Thus, the strategy was connected to the security implications of trade.

3.5.2 Post 1989

After 1989 realism lost some of its strength as an explaining theory of the new rapprochement between these two earlier separated domains of the international economy. However, we cannot rule out the influence of realism, especially since these negotiations were handled in a transition phase from the cold war system to the post-cold war system. Hence it was a period with both classical security policy thinking and an opening for new factors in the states views of East-West trade policy. Hence realism is needed, but it is by far sufficient to give a complete picture of the process of East-West trade bargaining.

The security perception of the Western states changed: thus the trade policy preferences changed toward «purer» economic preferences, toward other political preferences, or for some, security preferences were kept the same for a longer time. From that, one could get some hypotheses of changed preferences toward free trade from the EU countries. Even if realism has weakened as a theoretical tool in the analysis of East-West trade after 1989, it still has much relevance in an East-West trade analysis. It is relevant mainly because traditional security policy

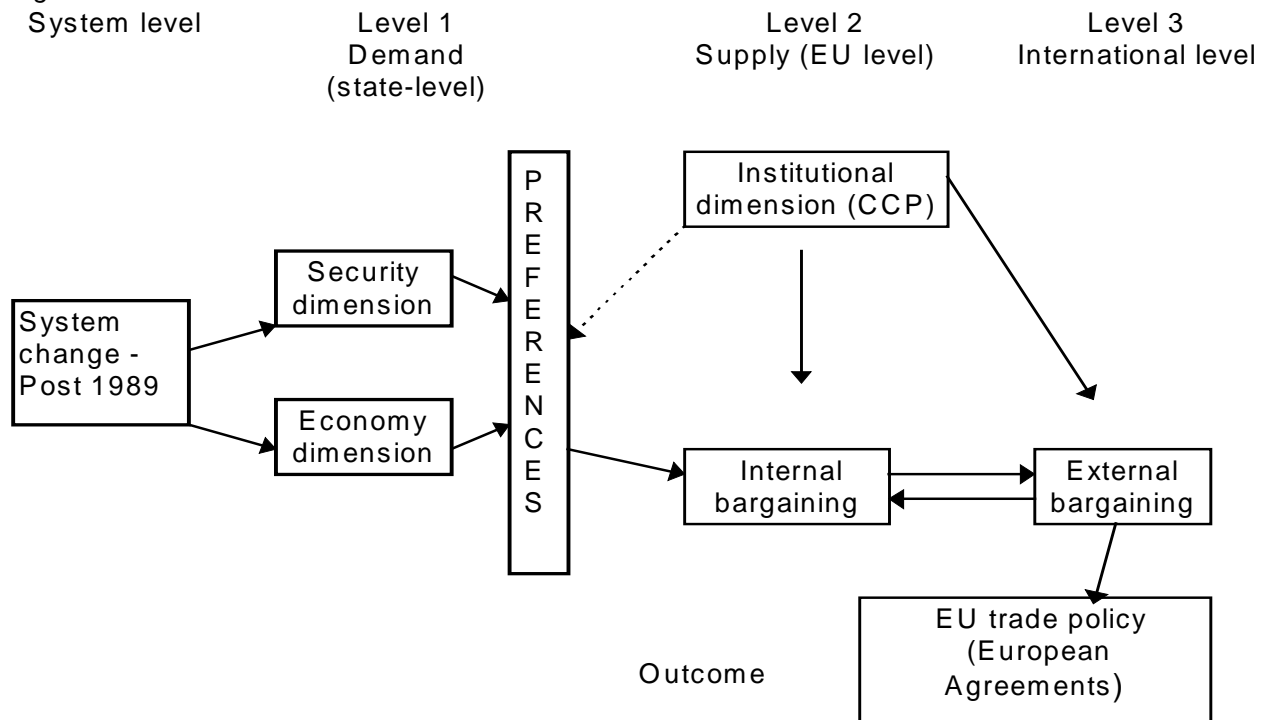
¹⁷⁵ Haus 1991:164-165.

¹⁷⁶ See Grieco 1988, There is no reason to divide neo-realism from realism since they are quite similar in the view of these five building-blocks.

has importance in the East-West relationship, and partly because the end of bipolarity has revealed other political goals, that could be achieved by the use of trade policy. Hence, I argue that an analysis of the negotiations of the EAs must include a traditional security analysis based on realism, and an analysis connected to the widened security notion which is even more sensitive to the economic development, and thus trade. This argument will be followed up in the political preference chapter (6).

3.6 The Modified Model

Figure E. An eclectic model on the EAs.



The inclusion of a security preference analysis will inevitably change the model somewhat. The new model will be as follows: The national preferences are created by «pressure from domestic societal actors as represented in political institutions».¹⁷⁷ This is brought into the interstate negotiations where the outcome will depend on the power and strategies taken by the states. The outcome can be described as the supply of the system as a response to the demand. This structural logic of LI could be presented in the case of EU trade negotiations with Visegrad in 1990-91. The preference formation (demand) is influenced by both economic and security related events that have or are expected to take place. These preferences are taken to the regime (supply) in order to create a common policy that will be used in the asymmetrical bargaining with Visegrad. Since this structure of LI could easily be used in this special context, I find it very useful in the case of EU trade policy toward Visegrad. The only major modification will be the inclusion of a security preference formation. The rest of the model will be aspects taken from LI with small changes. The external ?? negotiation is another potential change, but in this case it is of less importance and subordinated to what is happening in the internal EU negotiations given the power

¹⁷⁷ Moravcsik 1993:482

asymmetry. The external negotiation will in fact also occur at the same time as the EU negotiation goes on given the need for constant adjustment in the mandate to the Commission. Hence we have an eclectic model based mainly on LI to be used on the analysis of the negotiations of the EAs.

3.6.1 Before the Analysis

Next will be, an economic preference analysis based on LI and an intergovernmental (institutional) analysis of the bargaining that took place, in accordance with the rules of the regime. The last part of the analysis will be based on a security preference analysis. The combination of these three analysis chapters will be defined as my case study of the negotiations of the EAs between Visegrad and the EU.

Chapter 4.0 The Demand - A Liberal Analysis of EU Preferences

«IPE remains unintelligible without a systematic analysis of domestic structures.» Peter Katzenstein.¹⁷⁸

This chapter describes how to use LI to find the expected national preferences of the EU member states in the question of a free trade agreement toward Visegrad. The first section presents the Liberal Intergovernmentalist view on this preference formation. This will be followed by a deepened presentation, using especially a public choice approach. This will be connected with empirical data in order to attempt to describe EU member states' preferences toward free trade with Visegrad, and through such description indicate LIs ability to be used for such partial analysis.

4.1 Liberal Intergovernmentalism and National Preferences

Liberal theories of international relations focus on the effect of society-state relations on the shaping of national preferences. There are traditionally two versions of Liberal theories¹⁷⁹; first the traditional democratic causal chain from elections to the policy. Second, the interest group model with the infusion of private interests into the definition of public preference and the exercise of public choice. Liberal theories assume that private individuals and voluntary associations with autonomous interests, interacting in civil society, are the most fundamental actors in politics. «The factors that determine the identity, interests and influence of domestic groups are themselves both domestic and transnational (strategic environment).»¹⁸⁰

Traditionally the actors in society and state influencing the definition of foreign economic policy objectives consist of the major interest groups and political action groups. The former represent the production related areas (including industry, finance, commerce, labor, and agriculture); the latter derive from the structure of political authority (primarily the state bureaucracy and political parties).¹⁸¹ LI is most influenced by the interest group approach (producers), but is also concerned in the debate of state autonomy toward the interest group. In this sense, LI is a second image reversed¹⁸² theory. These theories assume that international constraints create patterns of societal interests that influence governments via the transmission belt of domestic politics, and are characteristically Liberal. However, this is «Liberal» in the sense that the individual/group is the decisive unit, but not Liberal in the meaning of a Liberal economic trade policy which often is expected from their theories. Interest group (public choice) theories can explain a protectionistic policy just as well as a Liberal policy.¹⁸³

¹⁷⁸ Katzenstein 1977:188

¹⁷⁹ See Katzenstein 1977.

¹⁸⁰ Moravcsik 1993:483

¹⁸¹ Katzenstein 1977:197 in 1991 Crane & Amawi.

¹⁸² Referring to Waltz three levels of analysis. See Waltz 1979.

¹⁸³ This will be done later in this analysis with the use of Bruno S. Frey's theory of public choice to be used in IPE. This will be done as a deepening of Moravcsik's view of the role of interest group, and will not in spirit

Public choice theories could actually be used to explain the phenomena of protectionism with a Liberal level of analysis. It is important to understand that protectionism can be explained within Liberal theories as well as within the more statist, i.e. Realism inspired, theories.

4.1.1 Liberal Intergovernmentalism and Co-operation

International policy externalities among nations create incentives for policy co-ordination. This is a core assumption of liberal theories of economic interdependence. International policy externalities arise when the policy of one government creates costs and benefits for politically significant social groups outside its national jurisdiction. These policy externalities laid the basis for the decision to co-operate in certain issue areas. «National governments have an incentive to co-operate where policy co-ordination increases their control over domestic policy outcomes.»¹⁸⁴ This will mainly be when the externalities are viewed as negative, and where they can be eliminated by international co-operation.¹⁸⁵ In the modern international political economy, policy co-ordination has two major purposes, each of which aims at removing a negative policy externally:

1. The accommodation of economic interdependence through reciprocal market liberalization. Restrictions on the import of goods and related factors impose policy externalities on potential foreign exporters, investors, and immigrants. Liberalization of the movement of goods, services, and factors of production may promote modernization and a more efficient allocation of domestic resources; favoring producers in internationally competitive sectors and owners of internationally scarce factors of production. Precisely this type of policy co-ordination which LI uses to explain intergovernmental bargains within the EU, can be used to explain new types of co-ordination in trade with other actors. Pointing at motives such as modernization, and the allocation of resources favoring internationally competitive producers, it is definitely a starting position toward an understanding of the incentives the EU and Visegrad had in their effort to remove restrictions of trade.
2. Policy harmonization in order to assure the continued provision of public goods for which the state is domestically responsible, such as socio-economic equality, macroeconomic stability and regulatory protection. Where economic interdependence links jurisdictions, divergent national policies may undermine each other's effectiveness. Co-ordination may, therefore, give greater de facto control over domestic policy outcomes than unilateral efforts.¹⁸⁶ Trade agreements with a range similar to the EAs definitely involve explicit or implicit questions of public goods; thus, these questions can mobilize interest groups and the governments just as much as the tariff related parts of the EAs. The vulnerability of governments, however, may vary greatly, and thus their will to coordinate their policy. Hence, the removal of barriers could also be explained by a motive of strengthening the capability in public goods provisions in EU countries. If we look at public goods provisions such as criminality and pollution, we definitely see connections with the EAs and the preferences of certain EU governments.

break with Moravcsik's view of the role of the interest group. I feel that it is necessary with a strengthening of this state-society section, because of the slightly different use of LI, with the purpose of analyzing EU trade policy.

¹⁸⁴ Moravcsik 1993:485.

¹⁸⁵ Moravcsik 1993:485.

¹⁸⁶ See Cooper 1972 («Economic Interdependence and Foreign Policy in the Seventies») quoted in Moravcsik 1993:486.

4.1.2 Distributional Consequences of Policy Co-ordination

Even where agreements are mutually beneficial, governments are likely to have different preferences regarding the distribution of the benefits. This may be described as a fight over relative gains, and precisely this phenomena is one of the most used in the criticism of the liberal theories (Institutionalism).¹⁸⁷ Only where the governments can overcome the national opposition toward the distribution of benefits can co-operation be possible, claims Moravcsik.¹⁸⁸ There are no assumptions of harmony of interests in Liberal Intergovernmentalism. Quite to the contrary can «the distribution of expected net societal costs be means to predict the nature of political conflict and co-operation in the EU, both internationally and domestically».¹⁸⁹ Thus it has not eliminated its connection to traditional Realism, even though it questions the autonomy of the state in its preference formation. The central difference is that LI give more emphasis to the economic sphere and the domestic approach than does traditional Realism, but when it comes to the nature of the actors, then Realism is very much present in this theory.

Different policy areas engender characteristic distributions of costs and benefits for societal groups. EU policy can be divided into three categories on the basis of policy objectives. These three categories stem from the two major policy externalities that make states co-ordinate policy. The only difference is a division of public goods provision in non-economic and economic public goods:

- 1) The liberalization of the exchange of private goods and services.
- 2) The provision of socio-economic collective goods and services.
- 3) The provision of non-economic collective goods.

The liberalization of the exchange of private goods is the core subject of this thesis. The two other areas of EU policy will not be studied in detail, partly because of the need to limit this thesis, and partly because it is less relevant in the actual bargaining that took place. Nevertheless, I will present some arguments connected to the other policy areas relevance before I continue with the exchange of private goods.

4.1.3 LI and the Socio-Economic Public Goods Provision

This includes the co-ordination of domestic policies designed to redress market failures or provide public goods, such as those of macroeconomic stability, social security, environmental protection, public health and safety standards and an acceptable distribution of income.¹⁹⁰ The effects of uncoordinated socio-economic policies may affect the international commerce negatively. The governments must often strike a balance between two independently valued policy targets: the flow of economic transactions and the levels of public goods provision. The more divergent that national policies are to begin with, the greater the costs of co-operation. This was the case with the EU and the Visegrad countries in 1989. However, the difference was in capacity not in political will. The Visegrad countries had no large reservations in adopting the standard of the European countries. Their capacity to do so was the problem.

The range of interest groups concerned with these matters was broader than with purely commercial matters.¹⁹¹ However, the demand from the EU that the «acquis» be firm and that the Visegrad had to adjust to them, ensured that these groups stayed away from the negotiating process on these questions. One could argue that the deterrence from these groups was so strong that an integration which could give different standards was impossible. In such a case the power by the interest groups influenced the outcome without being directly used.

This type of harmonization (public goods) was not a large problem mainly because it was not a subject in the

¹⁸⁷ Mearsheimer 1994:19. See also Grieco «Anarchy and the Limits of Cooperation» 1988.

¹⁸⁸ Moravcsik 1993:487

¹⁸⁹ Moravcsik 1993:487.

¹⁹⁰ Moravcsik 1993:491

¹⁹¹ Moravcsik 1993:493

EAs. However it is obvious that such matters could be a major question in trade negotiations when they are included in the agreements, e.g. environment, crime, social-policy and so on.

4.1.4 LI and Non-Economic Public Goods

These areas aim to provide non-socio-economic goals, and cannot be interpreted as a direct consequence of economic interdependence. The issue areas connected to the institutions, CFSP, and distributional funds are more politically motivated; although, they can be connected indirectly to economic interdependence. In general, the costs and benefits to political groups are diffuse and uncertain regarding the non-economic public goods. This makes these questions more connected to the ideology and personal commitments to the relevant national leaders. Thus the political integration is more connected to a favorable ideological climate often connected to leaders (elite), while the economic integration is more connected to the domestic political game, and the general economic development, which is determining the overall balance between winners and losers.¹⁹²

On the other hand general income transfers are very mobilizing toward interest groups, but their connection to the EAs is only apparent if the EAs lead to an automatic enlargement, which would upset the size of the national quotas. Until then this could only come on the agenda as a side payment connected to a free trade agreement. Hence, this will mainly be relevant in the more comprehensive question of enlargement. This was a serious question in the beginning of the negotiations, given the focus on the EAs as a pre-accession agreement, but it stayed as a political/ideological question without any strong connections to the distributional system due to the abstract level of the discussion. Hence, the interest groups were not mobilized in these questions. However the political elite could very well have political goals connected to the economic integration. The correlation between economic and political development is so strong that these types of motive could be quite relevant in an analysis of trade policy. Hence, both these policy areas (socio-econ./non-econ.) are potential in trade agreements which include political externalities in the negotiations, but they were not so strong in the EAs.

4.1.5 Liberalization of Private Goods

At the core of the EU is the internal market. The most basic EU policies are designed to liberalize or eliminate distortions in markets for private goods and services. «Following endogenous tariff theory, the approach employed in LI assumes that societal groups mobilized around commercial policy issues are composed almost exclusively of domestic producers, whether drawn from labor or capital, who organize by sector on the basis of calculations of net expected benefits from the introduction of new policies.»¹⁹³

Producers:

The net expected cost and benefits reflect the following factors:

1. «The extent to which individual producers profit from commercial liberalization depends most fundamentally on their competitive position in domestic and international markets.»¹⁹⁴ Accordingly exporters, multinational investors and expanding, profitable and diversified industries tend to support free trade, which increases their profits. Import competing producers «tend to oppose free trade, which undermines their profitability.»¹⁹⁵ Sectors

¹⁹² Moravcsik 1993:494

¹⁹³ Moravcsik 1993:488

¹⁹⁴ Moravcsik 1993:488, quoted from Lavergne 1983

¹⁹⁵ Moravcsik 1993:480.

and firms that are sheltered or undiversified, that face chronic surplus capacity, cyclical downturns, or long term decline, or have large irreversible investments, are also more likely to press for protection.

The balance of these two forces will determine state preferences in the question of trade policy of the states. As we can see, this arguing has its roots in classical liberal trade and mercantilistic theories presented in chapter 3. LI includes the understanding that a majority of the producers could be negatively struck by free trade. Hence both Liberal and Mercantilistic elements from trade theories are present.

2. It is important to create international compromises and issue linkages, which create viable coalitions by balancing winners against losers. Where adjustment is relatively simple or compensation between winners and losers can be arranged, distributional effects need not create opposition to free trade. If this is the case in the European countries, then there should not be obstacles for a free trade agreement between the EU and the Visegrad. This is easiest done in a mixed economic structure. Cross-cutting or balanced patterns of interests internalize the costs and benefits of trade liberalization to the same sets of firms and sectors, creating a cross cutting set of interests that undermines opposition to liberalization. Intra-industry trade and investment patterns reduce the net effects on the positions of individual producers and sectors.¹⁹⁶ The loss on the home market, can be compensated by increased shares in other markets through increased export. If not, there will be a domestic prisoners dilemma among domestic veto groups, leading to a sub-optimal outcome for society as a whole, which translates into an international prisoners dilemma, in which each government seeks to shelter its weakest sector from international market pressure. Most agricultural sectors, as well as industries with chronic surplus capacity, are characterized by inter-industry trade patterns, uniform and calculable interests, and high fixed irreversible investments and assets. Those types of producer groups will be more difficult to compensate; hence, the more the countries are dominated by these sectors the more compensations are needed in order to change their preferences. The natural question would be to find out which sectors will be struck by new competition with a free trade agreement between the EU and Visegrad. This is central in order to understand the strains that were present in the negotiations within the EU and with Visegrad concerning the EAs.

3. Where the effects of policy changes are uncertain, organized opposition to the government initiatives is diluted. International agreements are an effective way of modernizing the economies, while at the same time minimizing the political costs of modernization. The idea is that the distance from interest groups to international agreements eases the pressure on the government when the policy is negative to the national interest groups. This indicates a slack in the principal-agent situation, and can be used as an explanation toward free trade in the EU. If there is a slack in the principal-agent structure between the society and state, it will give the governments the possibility to assume more political risks by taking a more long term view or by pursuing more ideologically controversial goals,¹⁹⁷ even if there is a lack of compensations toward the interest groups. In such positions the leading politicians have de facto wider choices in negotiating strategies and positions.

With less slack the objective will be negative or positive more dependent upon the economic structure. The slack in trade negotiations is not as large as in the question of institutional development. Where the net costs and benefits of alternative policies are diffuse, ambiguous or insignificant, and the risk is low, the societal constraints

¹⁹⁶ Milner 1988, quoted in Moravcsik 1993:490.

¹⁹⁷ Moravcsik 1993:488.

on the government are lower.¹⁹⁸ This is not the case in trade policy. The costs and benefits are much more easily calculable in trade related issues. Most producer groups are heavily represented in the EU system, in addition to the national system.¹⁹⁹ Hence, the third argument from Moravcsik concerning the diffuse costs will not be very strong in trade negotiations. This will weaken the possibilities for a successful co-ordination of state preferences in the question of trade compared to i.e. institutional development.

On the other hand the governments are not just passively reflecting the dominant domestic positions toward free trade. On the state level, there will be considerations made on a more national basis. The needs of the national economy do not always merely reflect the sum of the sub-national actors. When there is a need to modernize or just to weaken special types of interest groups, a free trade agreement could be effective in the rationalization of parts of the economy, while at the same time, political costs can be dampened by letting factors outside national control take the blame. Thus, the EU can strengthen the autonomy of the political leaders to make these decisions. By subsidizing the cost of adjustment or by balancing the loss of home markets with gains in other markets, they can also mute opposition to liberalization. Diffuse economically structured countries may be more politicized, because the politicians are more free from pressure from interest groups. In many ways, states organize the society they control. This is a statist interpretation and indicates that LI implicitly uses arguments from the other theoretical schools that stress the government autonomy. This is not a critique of LI, but just a reminder that LI in itself is an eclectic approach, even more so than Moravcsik admits in his theory. The idea is that interests groups are not autonomous agents. The government has the possibility to manipulate their structure in order to achieve the results they need in their policy. The society-state relationship goes both ways and one cannot be separated from the other.²⁰⁰ This is a very sensible view, and I argue that LI has this view without stating it clearly, since LI uses government or international action in order to explain changes in the preferences of the interest groups, when it explains co-ordination and institutional development in the EU.

4.1.6 Bottom Up

These two levels, state-society, adopt a formal national preference on the economic sector that is brought to the policy process in the EU (supply chapter). All levels come into effect informally, but formally the dynamics follow the bottom up perspective. Sub-national actors have their preferences, the government adopts these, and adds their own preferences. This is taken with them to the negotiating game within the EU, and externally from the EU. The whole sequence then takes place under the formal rules of the GATT treaty.

4.1.7 LI - Summary of Demand

LI builds on classical trade theory arguments, which indicates the need to look at international economic structure in comparison with domestic structure in order to understand the national preferences in the question of free trade. Where the majority of the producers are losing because of the expected competition, there will be a negative preference and in the opposite case a positive preference. However, this could be manipulated by international compromises and issue linkages, which create viable coalition by balancing winners against losers. The third argument is that policy changes with uncertain effects dilute the opposition. Hence LI indicates a positive attitude to the problem of creating free trade. Either through a general majority of potential winners among the producers, or government intervention with compromises or uncertainty that promotes autonomy for

¹⁹⁸ Moravcsik 1993:494

¹⁹⁹ Schmitter & Streeck 1991:65

²⁰⁰ Katzenstein 1977:196 in Crane & Amawi 1991.

the government (statism). There is an underlying assumption that free trade is wanted by the governments, and that this wish will create some sort of compromise that balances the situation within the countries and within the EU in favor of cooperation. This assumption should not be taken for granted. There are other liberal approaches to these questions that criticize this underlying normative argument from most of the IPE theories. I argue that a public choice approach could just as easily explain Mercantilism as free trade.

4.2 Public Choice Approach to Protectionism

Liberal theory has traditionally lacked the power to explain this properly, given its focus on the goal of free trade. Moravcsik is open to the possibility of protectionism, but Bruno Frey has analyzed the phenomena even better. Since my analysis will point at negative preferences toward free trade, I feel it natural to bring in a stronger theoretical tool (Frey) to support this analysis.

Often the basic proposition of international trade theory is that free trade leads to higher real income, and is desirable not only for the world as a whole but also for individual countries. Why then do tariffs and other protective measures exist? If citizens were to determine tariffs by a single direct majority vote in assembly, the median voter would vote in favor of free trade.²⁰¹ This has been the traditional starting point for many liberal analyses of trade. The consequence has been a mismatch between theory and empirical events. This has been widely exploited by Realism in its criticism of Liberal theories, but there are no reasons why Liberal and Domestic theories should not be able to explain protectionism, even when the states would, as a unitary actor, gain absolutely on free trade. There are at least 5 modifications supporting this statement, using an approach presented by Frey, which are liberal in their methodological structure.²⁰²

1. If the losers in any tariff reduction are in the majority, and do not get compensation, then no such reduction in tariffs will take place.

This is in line with LI. Even if a state as a whole would be economically better off with free trade, it must create political compensations that secure political support for this improvement, depending on the political decision-making structure in each state.

2. Prospective gainers have less incentive to participate in vote, to uniform themselves, and to organize pressure groups. Tariff reduction is a public good received by everybody; thus, there are incentives to free ride. The prospective cost of tariff reduction to the losers is, however much more direct and concentrated, so that it is rational to engage in a political fight against tariff reduction. In addition well-defined short term losers are much more visible, and better perceived, than uncertain gains to be made in the distant future by the winners. Societal pressure upon governments reflects not only the costs and benefits but also the uncertainty and risk involved.

Neither of these arguments are a break from LI. Concentrated industrialists have more incentives to press for protection because they are more willing to bear the costs of organizing and lobbying for protection, given the fact that the revenue would be concentrated to themselves.²⁰³ Milner supports this argument; «the losers of

²⁰¹ Frey 1984:224, in Crane & Amawi 1991.

²⁰² See Bruno S. Frey 1984. «The public choice view of IPE»

²⁰³ See Moravcsik 1993. Frey 1984

liberalization tend to be over-represented, because they are more easily identifiable.»²⁰⁴ In such a case an agreement will be met with big protests from countries and sectors where the economic structures will create losers of this type, and they don't have to be in majority in order to stop an agreement.

3. Dependent upon the system of voting, prospective losers may be better represented in the parliament and the government than prospective winners.

This brings in the other channel (numeric) in liberal theories which LI more or less ignores, but it could be checked as a potential strengthening of the Mercantilism argument, although, I do keep this factor as a parameter in my study.

4. Alliances can create a majority against free trade. If several groups are adversely affected by a wide trade agreement, these groups can support each other, and thus, create a majority against the total agreement.

This is «issue linking» with a negative result. So far all theory, as well as LI, has concentrated on issue linking in order to strengthen international co-operation, but the logic could also go the other way. Again the theoretical assumptions made must be checked against the context of the analysis. Negative issue-linkage, especially within a country, could be a main explanation why the national preference may turn negative to free trade.

5. The tariffs provides revenue to the government, and in the absence of this there could be difficult to finance existing public expenditure.

This can create elite opposition, and off course, opposition from groups dependent upon this financing. It is important to remember that tariffs collected in CCP are one of the major sources of the total EU budget. It is not a direct income source for the governments.²⁰⁵ The only actors involved directly is the Commission and the groups financed from the EU budget, especially the groups and countries dependent upon agricultural support through CAP. These groups are more common in the Mediterranean and Ireland than in the rest of the EU. These five points can help explain why we often do not find praxis harmonizing with theory. The two first assumptions are not new, but the last three may function as an expansion of LI in order to explain negative preferences toward policy coordination in free trade. Thus, the public choice approach to IPE stresses the importance of interest groups connected to their strategic environment, but these groups can explain any international outcome (from free trade to protectionism and isolation) depending upon the character of decisions and the structure of the groups. This is an approach that speaks the word of Mercantilism, but with the use of same type of analysis as Liberal trade theory. Hence public choice could be used to explain differences in international protection, and that is important to understand when we investigate EU trade policy.

4.3 The Heterogeneous Western Europe

In the liberal approach the state preferences are dependent upon the domestic economic structure, and how this fits in to a regional and global pattern. The single market would make most non-trade barriers obsolete so that the

²⁰⁴ Moravcsik 1993:489-490.

²⁰⁵ The UK has been irritated regarding the tariff. The UK had free trade in agriculture, and the EU made agricultural products more expensive for the consumers in the UK. Hence, the UK consumers pay to the EU budget, indirectly increasing the UK contribution to the EU budget. See Williams 1991.

competition within the market would be more or less given within the EU after its implementation. However, the creation of a new trade policy toward the Visegrad countries represented a possibility for the countries and their producers to define their economic environment in the field of export and import from Visegrad and the forthcoming agreements with the rest of Eastern Europe. There was a *«carte blanche»*, and both export industry and import competing industry had stronger incentives than usual to lobby for their narrow interests, more than in any other trade negotiation, because little was really settled in this relationship. Usually trade negotiations concentrate on a revision of an earlier agreement. Changes in the trade pattern will raise the demand of compensations from the actors that have a relative economic loss. Targets for the interest groups were the national governments and the Commission, which were the central decision makers in this process. The process of building a «new order» within the policy area will (must) take place before a new agreement is settled. This must happen in the negotiating within the EU before or during the external negotiations. International agreement requires that the interest of dominant domestic groups in different countries converge: where they diverge, coordination is precluded. Hence EU bargaining positions were dictated by pressures from interest groups.²⁰⁶ As mentioned in the historical background, it seems that as interest groups mobilize when the details are discussed, and not while the rhetoric dominates.

All the states experienced the same phenomena, the disintegration of Eastern Europe; thus, they were all confronted at the same time. However, because of different economic structures, they developed different strategies to the same phenomena. «The foundation for any policy of international trade leverage must be sought in the role of each country in the international division of labor.»²⁰⁷ The formal response of the states to the integration between the economic areas will be different, due to their different economic structure. The global level will determine the framework for the national and sub-national level. The international position in the market will, to a certain degree, lead the national and sub-national actors to their preferences. This will have an informal character. The totality of the situation will create pressure to which the local actors respond. Formally, there would be pressure to follow the international rules which are built up as a consequence of multilateral or bilateral international cooperation. In this case, the GATT rules are such a formal agreement. Informally, the governments will pursue a policy that utilizes their preferences, and they have the freedom to do it given the EU's flexibility in trade policy. (see CCP- Chapter 2).

The interest groups positions will vary in the different countries from sector to sector. Following from argument number two of the public choice approach, producers will have more incentives than consumers to uniform themselves and to organize pressure groups. The economic effects of a free trade area between Visegrad and the EU will depend upon the economic structure in the Visegrad countries. Hence, the producer groups that will be threatened by an open trade will be negative to an agreement, while groups that are competitive will be positive toward an agreement.

4.3.1 The Empirical Situation.

Following LI, regarding the preferences of the EU countries, the first assumption is that the international political economy is pressuring the national interest groups, primarily the producers. This pressure makes these groups lobby their governments in order to create policy responses to the new situation; potential free trade with Visegrad. In order to reveal the national preferences in these negotiations, we have to look for the producer groups international positions and competitiveness. In addition it will be necessary to investigate the economic structure of the Visegrad countries in order to understand the perceived effect on the EU producer groups. Since most of the political power is with the member states in the question of negotiation, the aggregated national level must be the unit of analysis in these questions.

²⁰⁶ Moravcsik 1993:487.

²⁰⁷ Spaulding Jr. 1991:346

4.3.2 Economic Structure in the EU and Visegrad.

In the search for economic preferences among the Western states, it is necessary to concretize what I am looking for. A natural start would be to examine the comparative advantages in the Visegrad countries, and the economic structure in the EU countries. In order to reveal the national preferences, I look upon their economic structures. This could give a rational explanation of the different EU national preferences in the process that created a major change in the trade policy toward an important economic area. Following LI, an aggregation of producer data will give a correct image of the preferences made on a national basis. This is supported by the strongly emphasized interest group approach in LI. A short view of the perceived effects of a free trade agreement between Visegrad and the EU indicates that some of the following countries should be negative to a free trade agreement given their structural position toward Visegrad.

Table E. Regional producer losses (ECU millions) with free trade.

	Industry	Agriculture	% of GNP
EU	1,267	3,741	0,16
Greece	17	197	0,55
Ireland	10	70	0,37
Portugal	5	54	0,22
Netherlands	62	265	0,22
Spain	30	408	0,21
Italy	187	911	0,21
Denmark	9	120	0,20
France	157	859	0,16
Belgium	62	85	0,15
Luxembourg	2	4	0,14
Germany	538	471	0,13
UK	190	296	0,09

From Rollo & Smith 1993:164.

As we can see, there is no doubt that agriculture is far more sensitive for EU producers than industry. However, there are significant losses in both sectors, and they are unevenly distributed not surprisingly among the EU countries. Hence, there will be relative differences in their preferences toward free trade with Visegrad. The data indicates that the periphery countries would be worst affected, while the Northern-central countries such as the UK, Germany, France and Belgium would be least affected. It must be emphasized that there also were producer gains to be counted in. The table over regional producer losses indicates the relative importance of certain sectors to the different states, but this is even clearer when we look at next figures.

Table F. The size of sensitive sectors, % of GDP (Value-added).

	Sensitive non-agricult. v/a	Employment
Portugal	10,5%	9,9%
Belgium/Lux.	7,4%	6,6%
Italy	7,3%	7,2%
Spain	6,3%	5,8%
EU total	5,5%	5,4%

Table from Rollo & Smith. 1993. (Source EC DG-II, BDS database, 1985.)

Table G. The size of agriculture, % of GDP (Value-added).

	Agriculture v/a	Employment
Greece	21,1%	27,5%
Ireland	16,4%	18,2%
Portugal	13,6%	28,6%
Spain	10,9%	20,2%
Denmark	9,3%	10,7%
EU total	7,0%	11,3%

Table from Rollo & Smith. 1993. (Source EC DG-II, BDS database, 1985.)

Again we get confirmed the relative importance of agriculture, and at the same time its political importance due to its labor-intensive character.²⁰⁸ This is especially the case in the Mediterranean countries. Hence, both tables support each other in the indication of the countries that will lose most in a free trade agreement. Belgium's position in sensitive non-agricultural products combined with low producer losses is explained by its higher degree of competitiveness than the other countries. This can be seen by the ratio of value-added and employment which is lower than in the other countries. It is important to bear the gains in mind, as well, in order to understand the perceived effects of a free trade agreement between the Visegrad and the EU.

When it comes to the producer gains all statistical information points to Germany as the biggest winner. This will be confirmed when we look at the economic structure of the Visegrad area. The structure in Visegrad is marked mainly by heavy industry, chemical plants, some textiles and shoes, and agriculture.²⁰⁹ These are traditional economic structures; structures that reflect weakness in high technology and service sectors (banking, insurance, health ..) Naturally, the economies that are strong in these sectors will gain the most in a free trade situation. Trade theory often builds on the theory of comparative advantage.²¹⁰ This indicates that economies that are complementary have higher gains from trade than economies that are similar. And in a free trade situation, there should be a natural order of comparative advantages. Hence, shoes will be produced where they can be produced with the lowest costs. In reality, things are a bit more advanced, but the essence is that the countries will become more complementary to each other in a free trade situation.²¹¹ This means that there will inevitably be a change in the economic structure. Some countries will strengthen their current structure, while others may develop new structures, and some will weaken their current structure without being flexible enough to create new structures. Hence, they will weaken their position in the international economy. This expectation will, of course, create a negative preference toward free trade. Stolper-Samuelson have also proven that even in countries where all factors of production benefit from free trade, the scarce factor will lose, and labor will become the scarce

²⁰⁸ The numbers are originally from 1985, and recalculated in 1993, nevertheless, they illustrate the main point.

²⁰⁹ See van Brabant 1994, Rollo & Smith 1993, Sundström 1994:4

²¹⁰ See Samuelson. 1989.

²¹¹ See Samuelson 1989

factor.²¹² Thus, even in the strongest countries some negative effects are expected. Trade might be connected with unemployment. However, the producer effects will be influenced by this, and are in themselves the most important.

Figure F. Revealed comparative advantages of productive sectors

	SB	SI	SS	T	Ag	RI	E
FRG	+	+	+				
UK	+	+	+				+
France	+	+	+		+		
Italy			+	+	+		
Spain				+	+		
Portugal				+	+		
Greece				+	+		
CSFR		+		+		+	
Hungary				+	+	+	
Poland				+	+	+	+
U.S.S.R						+	+

SB = science based, SI = scale intensive, SS = specialized supplier sector, T = traditional sectors, Ag = agriculture, RI = resource intensive, E = energy

Sources: adapted from P. Guerrieri and C. Mastropasqua, «competitivita, specializzone , e europea,» in Bollino and P.C. Padoan, Il Circolo Virtuoso Trilaterale (Bologna: Il Mulino, 1992), and from authors calculations. Table from p. 340 in P.C. Padoan in «Political Economy and the changing global order» ed. Stubbs & Underhill. 1994.

As we can see from the table there are strong similarities between the Visegrad and the Mediterranean countries when it comes to comparative advantages. This indicates that there will be an intensified competition between the producers in these countries. From this, one can expect that there would be strong opposition in the Mediterranean countries to a free trade agreement between the EU and the Visegrad countries. Without including the possible compensations that could change the picture.

4.3.3 The Mediterranean Countries

As we see there is no doubt about the importance of these sectors in the Mediterranean countries. They are the ones with the highest producer losses, and at the same time the countries with conflicting comparative advantages with Visegrad. That Greece is worst affected is no surprise. They have a backward economy compared to the rest of the EU, and the agricultural sector is relatively larger than the average EU economy.²¹³ This is also the case with other Mediterranean countries such as Spain and Portugal. Spain and Portugal are, on average, more dependent than the other EU countries on both sensitive sectors. Italy is more dependent only in sensitive

²¹² Gilpin 1987:115.

²¹³ Share of employment in Greece working in agriculture was 21,6% in 1991, while the EU average was 6,2%. Source, Eurostat 1993.

industry, but if we look at the regional imbalance between Northern and Southern Italy, then Southern Italy will be more dependent on agriculture as well.²¹⁴ From this table one could expect a strong Mediterranean skepticism toward free trade.

4.3.4 The Northern Countries

When it comes to the, on average, the economically stronger Northern countries there is a different picture. Some countries should be expected to have mixed preferences to free trade, while others should have a clearly positive attitude to free trade except for Ireland. France has a strong agricultural production that has a comparative advantage within the union, but this could be threatened by a tariff reduction with other trading partners. This is a major explanation of the French reluctance in the Uruguay rounds that were negotiated in the same time period. Given the existing strength and strong potential strength of the Visegrad in agriculture, there were strong groups within France that were negative to a free trade agreement in this sector. However, there were also producer groups that had great opportunities for a strengthening of their export to the same area. This should indicate a mixed preference for France. The expected preference would be negative to agricultural trade (and traditional) while there should be more positive attitude to trade in other areas. This mixed preference strengthened the possibility of creating a solution through issue linkages following LI, but the compromise had to be compensated for by Visegrad, other EU states or by French authorities. Germany and the UK are less dependent upon agriculture and traditional industry, making them more positive to a free trade agreement. They would win from an increased export and decreasing import because of cheaper traditional and agricultural goods. Netherlands, Denmark and, Belgium were mixed; Luxembourg was positive, and Ireland was negative.

These preferences are confirmed by Nicolaides in his article «East European trade in the aftermath of 1989».

Nicolaides wrote in his article that «German producers stood to benefit disproportional from increased European exports to the East. The Mediterranean states along with France, feared they had the most to lose in granting broad-ranging market access to Eastern European products. France feared increased agricultural imports, Portugal was concerned with textiles and Spain with the fate of its steel industry. Thus it was unclear whether those countries that would benefit most from tighter integration with the East would be able to persuade others that would be most hurt to enter into rapid liberalization.»²¹⁵ This persuasion phase will be followed in the negotiation analysis included in the next chapter.

4.3.5 Geographical Pattern

Clearly there is a geographical matching to the economic structure. The core of the EU is more complementary toward Visegrad than the periphery of the EU. However, there are forces in every country that are against, and forces that are for; although, they vary in strength. However, there would be nothing wrong in stating that the core EU countries were on average more positive toward free trade than the periphery, especially the Mediterranean countries.

4.3.6 Different Political Systems within the EU

As described earlier, alliances between producers that are threatened by a forthcoming trade agreement can create a majority against a free trade agreement. The importance of these interest groups cannot be simply aggregated, but must be interpreted against different political systems and cultural traditions. This could be because of a strong corporate structure, or a strong position in the parliament (page 65, section 3). Thus after an examination of the producer groups, it would be natural to inspect the political regimes in the EU states to understand their preferences; to what degree they are open to pressure from interest groups. This brings the theoretical discussion over to the other elements of Liberal theory, and is a potential variable in the preference formation toward the outcome of free trade negotiations.

²¹⁴ Italian GDP per inhabitant was in average 102,5, while in Sud it was 69,1. (Eurostat 1993:65)

²¹⁵ Nicolaides 1993:219.

4.3.7 Exit, Voice & Loyalty

In economic affairs, the influence often takes the form of voice or exit. Where voice is the choice of sub-national actors to influence the existing system, while exit is the choice to abandon the existing system.²¹⁶ The governments are dependent upon domestic support to survive, and this gives the interest groups, voters and bureaucracy influence upon the government. This rests on the assumption that the governments primary interest is to maintain themselves in office. «This process brings the set of national interests that states bring to international negotiations.»²¹⁷ Democracy makes the governments vulnerable to elections. Thus interest groups that can mobilize strong support among the electorate can be expected to have great influence on the politics. The agricultural groups are very strong in this aspect. The rural areas are densely populated, and are sensible to pressure from the agricultural interest groups. In addition there is a tendency for these areas to have more representatives than their share of population indicates, in order to protect the rural areas against the traditionally stronger urban areas. Hence one should expect the agricultural interest groups to be stronger than their position in the economy would indicate. An example is that CDU/CSU in Germany listens to the farmers in Bavaria, who have major influence in the CSU, which again is necessary for CDU in the quest for power in Germany. This gives the farmers more influence in Germany than their pure economic importance indicates.²¹⁸

When it comes to the other EU member states, it would here be impossible for me to give a detailed view of the political systems within the EU member states. One should assume that they are pluralistic with a high degree of interest group activity toward political decisions that affect these groups in a calculable manner. There is reason to believe that there is a major difference among the countries, but I am treating this variable as a parameter in this case.²¹⁹ It would be an impossible task to go into detail with this factor. The important thing is to be aware of the potential influence the political system has as a factor that influences the economic statistics that will be used as a variable in the formation of state preferences.

4.4 Summary of Economic Preferences

The conclusion of this theoretical approach is that the Western governments seek an agreement that is favorable in distribution toward the Western countries. Deciding what is favorable is not just dependent upon the trade balance, but also a consequence of internal considerations. The dominance of certain producer groups influences the economic preferences of certain states. Where these groups will meet intensified competition from the Visegrad economy, they will be restrictive toward free trade. Oppositely, where the Visegrad economy indicates growing market shares for EU producers through increased export, they will be positive. The preferences made are dependent upon the distribution of these producer groups within the EU countries.

Given the wish to maintain power, the governments take into consideration the domestic interest groups. The preferences are, thus, a combination of internal economic structure, and the perceived effect of an agreement for this structure. Thus, the preference taken is an effect of the applicants economic structure and the EU states internal economic structure. The governments reflect the sub-national groups that are influencing the governments, due to their strategic environment. However, there is a tendency for the negatively affected groups to be better organized than the other groups due to their stronger incentives for lobbying. However, if the governments are seeking to reform their economy, they will accept the dissatisfaction from the interest groups or compensations.²²⁰ If the effect in general is perceived as negative for the government either through a negative

²¹⁶ See Hirschmann «Exit, Voice & Loyalty» 1970.

²¹⁷ Moravcsik 1993:483.

²¹⁸ Paterson 1990:190 in Urwin & Paterson

²¹⁹ This must be done in order to reach a conclusion within the length of this thesis. «You can't learn the world».

²²⁰ This could be an effort to weaken the unhealthy interest groups in the society, or just to strengthen its general performance in the long run. This type of modernizing motives is off course strongly present among the Visegrad

trade balance and/or their economy, the country will be negative toward open trade. This is in harmony with the public choice view presented. Hence, the analysis of state preferences will build on the elaboration of the public choice approach to IPE.

The governments influences the EU dependent on their domestic and international position. We have seen that the Mediterranean and periphery countries in the EU were more negative to free trade than their Northern and Central colleagues. This is because of the stronger competition between the economies of Visegrad and the Mediterranean - periphery. Then the EU will be a pressed actor who will protect the sensitive sectors of its economy, and open the sectors in which they are competitive, as a reflection of the structure of the member states and their power distribution. This way the members will maximize their own gains. The aggregated EU preference taken will be a function of the member states aggregated economic structure. Unless other preferences or institutional constraints influences the process. Given only this type of preference analysis, the conclusion is that an agreement would be based on the principle of the «lowest common denominator». This partial conclusion is based on the fact that the political system is treated as a parameter in this case. However, there are factors that will create outcomes of a more benign character. These factors takes place in the bargaining (supply phase) or in the political preference formation, and will be the subject of the two next chapters.

countries, where the producer groups had little influence, and in a high degree would expect strong competition. See van Brabant 1994 and Inotai & Sass 1994.

Chapter 5.0 The supply - Institutional dimension.

«We initially came into these negotiations thinking it would be like with the World Bank or the IMF: working together to solve a common problem. Instead, we quickly found out that we were talking from two opposite sides of the table and that we were engaged in tough political bargaining» Remarks from a Visegrad trade official.²²¹

First I will introduce a theoretical presentation of the EU as a supply factor in intergovernmental bargaining. This will include regime and institutional descriptions of the EU. Emphasis is put on these descriptions because I find Moravcsik's view of the EU too narrow when it comes to the field of CCP. The supply phase with the emphasis on the EU and its functions in these bargainings, will not be presented as a preference variable.²²² I am aware of the opportunity to do so, but I will cling to LI as a locus in this thesis. Hence, I will only discuss eventual constraining institutional effects on strategies taken within the West. This in itself is a widening, compared to LI, on the view of the influence the EU as a regime has on the member states. Liberal Intergovernmentalism seeks to analyze the EU as the result of strategies pursued by rational governments acting on the basis of their preferences and power. The preference formation in LI was introduced last chapter. This chapter is concerned with power in the bargaining and the outcome of the bargaining (supply).

5.1 General Theory in the Supply Phase

The interest of international regimes as a new era of study in the 1970s was rooted in Neo functionalism. In contrast with Realism, Regime theory assumed that states have separate interests in different issue areas and not a stable hierarchy of interests with security at its top. Opportunities for cooperation depend on the particular situation in a given issue area. This is a functional explanation of regimes.²²³ The main difference between regimes and Neofunctionalism was primarily the former's lack of attention to interest groups. Secondly, the lack of spill-over given their assumption of issue area specialty. Even though it has a lot of inspiration from regional integration, regime theory is an attempt to explain cooperation in a general framework. This divides it from Neofunctionalism.

Regimes/Institutions²²⁴ are viewed as «principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue area.»²²⁵ Norms and rules which act as intervening variables between power and outcomes in world politics, alter the context or environment in which states make decisions, and thereby, facilitate cooperation in cases in which common interest exist.²²⁶ An alternative definition is:

«Institutions is a set of rules that stipulate the ways in which states should cooperate and compete with each

²²¹ Quoted from Nicolaides 1993:232.

²²² Several authors have analyzed the negotiations and the presence of the institutional effect as an independent variable in the process of creating state preferences. See Nicolaides 1993 and Keohane & Hoffman. 1991.

²²³ Because form follows from function. In other words the type of regime will vary with the type of issue area.

²²⁴ The difference between Regime and institutions in the literature is somewhat unclear. The common explanation is that institutions are somewhat stronger and more formalized cooperation than regimes, and that they have to be institutionalized with its own bureaucracy, which regimes do not need. However there is a tendency to use the same definition of regimes and institutions making the borders between the notions blurred. I will speak of the EU as an institution. Moravcsik 1993 describes it as a regime (a unique regime). This difference in notions, is no problem as long as we relate to the same phenomena, which we do.

²²⁵ Krasner 1985:4

²²⁶ Haus 1991:166

other».²²⁷ This definition is a bit stronger in its demand to the degree of co-operation, but both definitions are far from sufficient to describe the EU.

5.1.1 Institutions/Regimes - A Predictable Agenda

Regimes encourage agreements when common interests exist, by narrowing the range of expected behavior, by increasing the level of communication and information, and by reducing uncertainty. Regimes encourage states to define their interests in a more farsighted manner not only by increasing information about the extent to which others are adhering to the rules. Regimes provide an incentive for states to honor their commitments, and thereby, maintain a good reputation that is conducive to reaching future agreements in the same or other issue areas.²²⁸

In summation, Regime theory points to the influence that norms, rules, indirect effects of action, and concerns for reputation have on the behavior of states. Regime theory suggests that the Western policy toward negotiations between themselves and Visegrad will be influenced by a concern to abide by the EU institution's norms and rules. They will insist on these in a manner so that the Visegrad countries will have to adopt these norms and rules unilaterally. Even if there should be strong doubts behind the agreements made, there would be pressure to operate within the norms and rules of the existing regime. Not only the EU provides norms and rules, but GATT also gives pressure in this direction. The concerns of reputation will help prevent defection from the agreements. A defection will also put countries outside the protection of the regimes. Internal defection in the EU in this case is very unlikely. It would be out of proportion to «exit»²²⁹ from the EU because of a narrow issue like the negotiation of the EAs.

Thus, the theoretical argument points toward a strong position for the existing regime. This was also confirmed during the negotiations, there was no question of the basis of the EAs. Institutions (the EU) also signaled the governments intentions, thus making policies more predictable. The EU dominated the agenda by their institutionalized practice of the negotiation of such association agreements. Institutions specified obligations for states. In fact this effect was so strong that the Visegrad countries unilaterally started to reform their political system in order to fit into the EU *«aquis communautaire»*, even before the negotiations started. Hence the EU regime established the framework of the negotiations even before they started. One can say that the GATT regime also contributed to that, but not to the same extent as the EU, given the strong CCP.

An example of the strength of the EU regime came when Hungary tried to achieve rules of accumulation toward the EFTA countries.²³⁰ Strangely enough, Hungary did not try to achieve the same with the Visegrad countries. This indicates a lack of cooperation between the Visegrad countries and a strong preference for closer cooperation with Western Europe. Austria was the main reason for the attempt to have rules of accumulation with EFTA. At that time, the trade with Austria was large, and it looked as though it would probably continue to grow. The attempt was rejected totally by the EU on the grounds that it broke with the rules of the CCT.²³¹ The problem

²²⁷ Mearsheimer 1993:8

²²⁸ Keohane «After hegemony» 1984:99

²²⁹ Exit, refers to Hirschmann 1970 «Exit, voice & loyalty».

²³⁰ This integration of the rule of accumulation with EAs and EFTA came first in November 1996. Stavanger Aftenblad 26/11 1996.

²³¹ However, the agreement made was a step forward compared to the GSP. The advantage was the legal accumulation of outward processing products, and inward processing products. Given the much stronger position of EU corporations than Visegrad corporations it is mainly outward processing products that is relevant at the moment. One other major reason is that the salaries are quite higher in the EU, and that will not change in a long

is that the rule of accumulation was threatening the logic of EU trade policy. In other words, it was directly connected to the nature of the EU as a regime, and this was of course not a matter of negotiation. Again we could see that the rules of the EU was taken for granted, or that the EU was very rigid in these questions, since it questioned the basis of their regime. Hence, the institutional influence on the negotiations was very strong in these questions, indicating the firm basis of CCP in the EU.

5.2 Liberal Intergovernmentalism and the Bargaining (Supply)

EU decisions can be thought of as a game of co-ordination with distributional consequences. The configuration of domestically determined national preferences defines a bargaining space of potentially viable agreements. Bargaining has two analytical problems: the efficiency of the bargaining, and the distributional implications of the bargaining. In order to explain bargaining outcomes, it is necessary to understand the factors that account for the relative power, and to have a detailed knowledge of the empirical context in which the bargaining took place.

5.2.1 Three Strategies in EU Bargaining

As a starting point LI gives three assumptions about EU interstate bargaining.

- 1) The co-operation is voluntary. Fundamental decisions in the EU can be viewed as taking place in a non-coercive unanimity voting system.²³²
- 2) The environment in which co-operation occurs is relatively information rich.
- 3) The transaction costs of bargaining are low.

Yet even in this relatively benign environment relative power is important.²³³ Bargaining leverage stems most fundamentally from asymmetries in the relative intensity of national preferences. The more intensely a government needs something, the more concessions and greater effort they will make to achieve this. The greater the potential gains from an agreement compared to a non-agreement, the weaker the bargaining power. I argue that this intensity argument from LI must be viewed together with capabilities and strategies chosen by the actors. The differences in capabilities²³⁴ are obvious, especially when we compare Portugal and Ireland with Germany and France. Still capabilities are relatively firm and independent from the institutional influence. Preferences were introduced last chapter as dependent on the economic situation. The remaining factor strategies taken, forms

time. EFTA had the same problem until late in the 1980s so it is no indication that the Visegrad had worse treatment than other countries.

²³² I disagree a bit with this assumption. Moravcsik claims that «intergovernmental co-operation in the EU is voluntary, in the sense that neither military coercion nor economic sanctions are threatened or deployed to force internal agreement. The former (military) are correct, but the statement of economic sanctions will depend on which definition of economic sanctions one operate with. A traditional definition will include events that have taken place between EU countries, thus falsifying Moravcsiks assumption. However is point is clear that EU is a more benign negotiating place than most other places, given the institutionalized character of the bargaining.

²³³ Moravcsik 1993:499.

²³⁴ Capabilities is defined as the national economic and military resources at the disposal of their national leaders, Krasner 1985:4. In this case the military resources are secondary of the economic resources, given the nature of the EU.

the discussion of this chapter. However, capabilities and preferences must always be viewed together with the strategies in order to understand the outcome of the «supply». LI claims there are three likely strategies and determinants of interstate bargaining power under such circumstances:

1. Unilateral alternatives and threats of non-agreement

2. Alternative coalitions and the threat of exclusion

3. Compromise, side payments and linkage at the margin

5.2.2 The Use of Non-Agreement

Regarding the first determinant, there were no unilateral alternatives given in the CCP. However, the threats of non-agreement were very much an alternative. The result had to be either agreement or non-agreement since there were no realistical opt-outs for the member states. The non-agreement (veto) is a very dramatic strategy since it would block any agreement between the external actor and the EU. It challenges not only the external actor, but also the other EU countries and the Commission. However the power asymmetry in favor of the EU in the negotiations makes it more of a threat toward the external actor than the other EU countries.

This is exemplified by the complication between Greece and Hungary during the negotiations. Greece used the threat of non-agreement (veto) in order to get more transport concessions through Hungary as a compensation to the free trade agreement. Hungary tried to include the EU in these negotiations in order to use the EU as a power multiplier against Greece. But the Greek representatives did not accept an inclusion of the other EU countries in this question. Only after the Hungarian compensations came, did they accept discussion of Hungarian compensations from the EU. Greece got their transport quotas, and Hungary were promised some infrastructure help from the EU. Hence Hungary gave licenses without knowing the degree of infrastructural aid it would get from the EU. Hungary would not risk the EAs on this question, and did not dare to black mail EU in the way that Greece black mailed Hungary, so there was no issue-linkage from Hungary toward the EU. Greece used the EAs and the EU in order to strengthen their position. The idea was that they could use the threat of non-agreement given their veto in the decision-making procedure in CCP regarding external treaties. Thus, EU membership was used as a power multiplier by Greece in order to secure their preferences. This strategy was an issue-linkage combined with the use of their membership as a leverage, but it was clearly based on the threat of non-agreement. The strategy was chosen because of their negative preference toward a free trade treaty, and it forced Hungary to compensate in order to secure the EAs. Keohane has claimed that «Institutions are potential sources of leverage for ambitious governments, thus we should expect, in a period of rapid change, to see them used as arenas for the exercise of influence.» This seems to be confirmed several times during these negotiations.

5.2.3 The Disintegration Option

The second determinant or strategy of alternative coalitions or exclusion was not an alternative, since it was not possible with alternative coalitions given the common approach in the CCP. The threat of exclusion was likewise no serious alternative. It would have been out of proportion to use the «exit» threat in trade agreements toward third countries. The only effect from this was as a disciplining factor within the EU. Since a common solution was the only solution, the EU countries were pressured to find a common solution, and the pressure increased the longer the negotiations lasted.

Especially the failure of the EEA (European Economic Area) negotiations increased this pressure toward finalizing the EAs.²³⁵ A failure in both EEA and the EAs would be an embarrassing situation for the EU and the member states, especially when connected to the uncertainty of the Maastricht agreement. Relations to third countries are often used politically when problems arise in the internal development. Hence, the idea was that the advocates of the EU would give much to secure a successful agreement with the Visegrad since the EEA failed at that time. Inotai supports this argument even though it is difficult to prove.²³⁶

This is exemplified by the Spanish protocol in steel on the last day of the negotiations at the Maastricht meeting. Spain tried to strengthen the protection measures at the end of the negotiations, but these attempts failed when none of the Visegrad countries were willing to accept these unknown protocols in the EAs.²³⁷ The Spanish proposal included a steel protocol with voluntary and quantitative restrictions. It is difficult to say if Spain got compensations from the EU or other members, but none came from Visegrad at this time.²³⁸ This time the intensity of preferences in the negotiations had changed more to the advantage of the Visegrad. There was increasing political pressure building up toward the end of these meetings, both on the Commission and the member states, giving the Visegrad their best moment toward pressuring the EU to create a solution. A failure in the negotiations after one year of negotiating would be costly to the political elite in the EU and its member states.²³⁹

The lack of compensation to Spain in the hours of intense negotiation in the EU that occurred after the Visegrad denial, could be an indication of this pressure and the influence of the other EU states toward Spain. Another factor is that the legitimacy of the EU in this case was quite bad given the attempt to include an unknown protocol in the last hours. If pride is a factor in international politics, then it certainly should have an effect in this case. Hence, the second determinant or strategy seemed to help the Visegrad in getting an agreement.

5.2.4 Compensations

The third determinant or strategy concerning compensations indicates that concessions are most likely to come from those that have the most to lose from non-agreement. Section one of the preference chapter emphasizes that if the dominant groups are negative to an agreement, there must be compensations from other sources. These must come either through the national government, another EU state, the EU institution, or the negotiating countries (Visegrad). Compensations will be a function of intensity and capabilities, and are to be used when the threat of non-agreement is potential or explicit. A factor that is increasing the win-set is that there will always exist different preference intensities on other issues. This makes it possible to find a compromise when other issues are included in the bargaining (linkage). This could be welfare increasing for all parties. The major problem with this solution is the domestic opposition, since all agreements have distributional effects also within the countries, and not simply between them. This makes it more likely to get linkages in sectors where domestic

²³⁵ The EEA failure was due to the negative ruling of the European Court to accept the EEA court as independent from the European Court.

²³⁶ Interview with Meisel. Inotai is the leader of the World economic institute in Budapest, and participated in the negotiations.

²³⁷ When the EAs were ready for signing,, the Visegrad representatives noticed that there was an unknown steel paragraph strengthening the protection of this sector. This was a Spanish claim that the EU pursued. The Visegrad representatives had heard of these protocols earlier, but never agreed to their presence in the EAs. The Visegrad representatives stood firm, and would not sign the agreements unless these protocols were removed. This happened on the European Council, so the protocols were moved within hours. No official compensations were made toward Spain. Interview with Hargita.

²³⁸ Interview with Meisel.

²³⁹ Nicolaides 1993:225

preferences are not so intense. Linkages are likely to come in closely related sectors, where there are more possibilities to internalize costs and benefits within sectors, balancing gains and losses. Package deals are also considered to be most likely in the final stage of bargaining. Hence, there were definitely possibilities for compromise, compensations and linkages. Whenever the issue linkage is difficult, the possibilities of coercive²⁴⁰ action or «pure» compensations become the only alternatives.

5.2.5 EU Compensations to Negative Countries

The use of national compensations are the least likely compensations to be made. Compensations from other EU states should be more logical since one can expect that there are economic or political winners from a free trade agreement. This is supported by the fact that there is a tradition for distributions in the EU whenever reforms have been made. Some of these compensations took place through the EU system. This is explained by the wide political fields the EU controls, but also because this money is less politicized and the member states have more autonomy in using this money in political bribes than national money which is under stronger control from national political groups. It would be harder for Germany to compensate Portugal with only German money than with money that is de-nationalized through the EU budget. Every compensation financed from the EU budget will, in fact, be very much paid by Germany and some other Northern countries given their dominance as financial contributors to the EU.

The first compensations came in textiles where the less developed members of the EU expressed concern over the forthcoming competition. One example was the Portuguese opposition towards a final date in the free trade of textile. The Commission executed pressure on Portugal with support from Germany, Netherlands and the UK.²⁴¹ The traditional solution was to give financial assistance to the EU companies (Portuguese), in other words, internal compensations.

This was because the other countries had an interest in an outward processing products relationship with Visegrad and wanted free trade. Hence, when the Commission was backed by other states they achieved results. This indicates that the power relationship within the EU is very much horizontal in these types of negotiation. The Commission needs backing of other member states in order to achieve compromises. This phenomena is in line with the intergovernmental view of LI, and traditional regime theory. Hence the rules and norms of the regime may be very strong in the CCP, but they also give the states the pivotal role in the major decisions. Thus, these decisions must be described as collective decisions where the states must do the final bargaining in order to achieve an outcome.

As the example with Portugal and textile shows, the internal pressure functioned best when the Commission was backed by the presidency and especially by other member states. Still, there had to be compensations made toward the countries that threatened with non-agreement. These compensations were made within the EU system, and not in a bilateral manner. The two types of compensations available were either concessions in the form of a stricter mandate that the Visegrad had to accept, or they were concessions financed from the EU budget. This supports the argument that the EU gives more autonomy to the political elite in order to create win-sets. The burdens of compensations are less clearly shown by the common financing of the budget. Even though it is easy to understand that Germany and some other Northern European countries paid most of the concessions, it was still a «commonly» financed solution by credits from the EU. In addition there had to be an external payment,

²⁴⁰ Coercive actions are not present in EU following LI. However, I claim that they are and have been a part of EU decision-making.

²⁴¹ Nicolaides 1993:225 Interview with Meisel and Hargita.

with Poland (textile) taking some of the costs of the compensations. This was an example where several options of compensations, both internal and external, were used in order to achieve a compromise.

Table H. List of net payments to the EU budget.

	Net payments million ECU.	ECU pr. capita.
West-Germany	6350,6	103,8
UK	3353,8	58,7
France	2946,3	52,8
Italy	1428,8	24,9
Belgium	1123,9	113,5
Luxembourg	64,6	174,6
Spain	30,7	0,79
Denmark	-174,2	-34,2
Portugal	-487,2	-46,8
Netherlands	-1129,4	-76,3
Ireland	-1340,8	-383,1
Greece	-1988,2	-198,8

Source: Court of auditors, Annual report 1989, Official Journal of European Communities, C313, 12 December 1990, p.76-7. in Harrop p.223, 1992. Table is simplified by the author. Population numbers from 1988 used in pr. capita. are collected from «Statistisk årbok» 1991 SSB.

The compensation strategy is often used in the EU because the threat of non-agreement becomes a power multiplier whenever common policy is the only alternative. Thus the EU becomes a difficult bargaining partner in the question of trade (CCP). This difficulty is both internal and external in the bargaining. Whenever there is a power asymmetry, the tendency is that the third countries bear the costs of compensation within the rules of GATT/WTO. This is analogous with the tough reputation the USA has as a negotiating partner because of the USA's difficult «domestic» procedure in trade negotiations.²⁴²

5.2.6 External Compensations

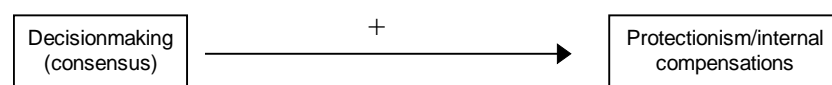
The difference between IGC negotiations and trade negotiations is the presence of an external actor that can be used as a possible source of compensations. The use of this source is very probable when the power asymmetry is so obvious as in the case with Visegrad and the EU. From this, the expected agreement would be biased toward free trade in these sectors that are competitive for the EU countries or where there has been an internal compensation made within the EU system. It will be biased toward protection were the EU is less competitive or no internal compensations are made. This gave an agreement that created free trade in areas without much threat to the EU producers, while the other sectors were more or less protected dependent upon the sensitivity of the different sectors to the national governments that were pressured by sub-national groups. If we examine the end result of the agreements, this is very much the case, indicating that EU used its strength in order to pay off internal trouble makers, that had strong influence given the decision making structure in EU.

²⁴² The strong position of the congress makes it difficult to achieve a win-set in the trade negotiations e.g. the domestic veto against the Havana charter from 1947. Spero 1977:94-95.

This was exemplified by French resistance against the agricultural concessions made in September 1991. Even though France had enormous pressure to accept the already restrictive agricultural agreement in September 1991, there had to be new compensations; indicating the strength of the threat of non-agreement in the CCP. A non-agreement was legal from the CCP, and it was impossible for the other countries to exclude France from the arrangement without jeopardizing the whole regime. Hence, the regime functioned as a power multiplier for France and other countries that used the threat of veto in order to stop new agreements. This negative power cost the other members and third countries dearly through compensations. This tendency is one of the major explanations of the incredible system of compensations which is built into the EU, and this creates a major obstacle for the future development of the EU.²⁴³

It was far more practical to let the external countries pay for the need for compensations within the EU than to take the costs internally or make a reform of the system in order to avoid these costs. The conclusion from this indicates that the present decision-making structure, due to the consensus system, is influencing the EU toward a more protectionistic policy than a majority system would give. Thus, a constitutional reform toward majority voting in trade questions would probably change EU trade policy toward more free trade. Another way to make the EU more free trade oriented is to reform the internal compensations system that makes an achievement in free trade in certain sectors very difficult, especially in agriculture. Thus, the institutional pattern can be viewed as influencing EU trade policy in a protectionistic manner by forcing the costs of compensations on to third countries. Hence, third countries often pay for the consensus in the CCP.

Figure G. Consensus Strengthens Protectionism.



As indicated earlier, the consensus system strengthens the power of the negative member states given their veto. The veto functions as a power multiplier. The persuasion phase that follows the threat of non-agreement is often compensated for by third countries, thus, making agreements more restricted (protectionism). However, if the external actor has sufficient power, this would probably end in internal compensations instead or worse disintegrating moves such as exclusion or non-agreement.

There was never a chance that the negotiations between the EU and Visegrad should solve these fundamental internal EU problems.²⁴⁴ In most cases this meant that these problems sectors were not really included (agriculture) or they got high protection (steel and textile). As EBRD President Attali said in 1992 «the Europe Agreements appeared to be designed to restrict their access to key Western markets rather than to integrate them».²⁴⁵ That meant that the Visegrad took a lot of the costs, and in only a few places were there compensations from within the EU. Each time a new compensation is made, the system of internal transfers becomes even more complicated. So in the long run it seems like only major internal reforms can solve these problems for the EU.²⁴⁶

²⁴³ The structural funds, cohesion fund, and the CAP are major obstacles to enlargement, and to every trade agreement made by the EU. Still it is politically costly to reform these programs, since they are among the fundaments that legitimate the EU. See Baldwin 1995.

²⁴⁴ See Rollo 1995 and Baldwin 1995.

²⁴⁵ Financial Times 29/10 1992. «Eastern vision»

²⁴⁶ The awareness of these problems is high in the EU. For several years proposals for reforms have been worked on, and the ongoing IGC will include some of these problems. The problem is not lack of information, but

Otherwise, we could risk increasing protectionism from the EU. Since the willingness from Germany and other countries to finance free trade with internal compensations will be lower over time, protectionism or internal reforms (or disintegration) will be the only alternative.

5.2.7 CCP Reduces Strategies Available

As one can see, the use of LI in EU trade negotiations reduces the power determinants to the two following determinants:

1. Threats of non-agreement (veto).
2. Compromise, side-payments and linkage at the margin.

The CCP reduces the alternatives compared to the questions of institutional development bargaining, due to its stronger supranational rules and regime. This indicates the strength of the institutional/regime variable in the question of the formation of EU trade policy. This represents a modification of LI in its acceptance of the influence of the EU as a regime. Hence the institutional variable constrains the strategies available for the member states. However, this is mainly explained by the issue specific analysis (CCP), and is not necessarily relevant in the question of institutional development bargaining which LI is meant for. However, the inclusion of the external actor increases the flexibility in achieving a win-set due to the possibility of an external compensation.

5.3 Supranational Institutions and the Efficiency of Decision-Making

LI also concentrates on explaining why member states delegate sovereignty, and if this should be viewed as supranationalism, or intergovernmentalism. This is not a direct subject in my thesis about EU trade policy, but some parts of it are relevant to the bargaining in this thesis. LI emphasizes that there is no antithesis between supranational institutions and intergovernmentalism.

The EU is seen as strengthening the nations control over their domestic affairs, permitting them to attain goals otherwise unachievable. EU institutions appear to be explicable as the result of conscious calculations by member states to strike a balance between greater efficiency and domestic influence on the one hand, and acceptable levels of political risk on the other. The EU is thought to strengthen the power of the governments in two ways:

1) The EU increases the efficiency of the bargaining through a reduction of the transaction costs. One of the major problems in EU trade policy negotiations is the link between the Commission and the national governments concerning the mandate of the Commission. Formally the Commission receives a mandate which they are supposed to keep in the bargaining. If there are problems concerning the mandate, then there usually is an intergovernmental committee which controls the negotiations in order to secure that the national interests are fulfilled. Two relations made the EA negotiations special; first, the mandate was vague and mostly political (the

political impotence in these cases. Partly given the political elite, and partly given the environment that that surrounds them. See e.g. Smith 1996, Baldwin 1995, Smith and Wallace 1994, Heidensohn 1995:102-106.

official mandate); second, there was no standing committee controlling the Commission in these negotiations.²⁴⁷ Hence there were several revisions of the mandate. These conflicts show that the EU institutions had a central role in the process, creating win-sets through both «carrots and sticks», in order to achieve an outcome. There was political pressure on both sides. The Commission tried to use this pressure on the member states in order to get an agreement. One Hungarian representative indicated that the Commission often had the role of a mediator in the negotiations, even though they must be described as the opposition in general.²⁴⁸ Given the difficulties regarding the diverging preferences, the negotiations functioned best when the Commission could make direct contact with the national governments. Then they could create the pressure needed to get compensations and persuasions in order to get a win-set. This is best exemplified in the last negotiations of December 1991 at the Maastricht meeting.

The third mandate in September 1991 gave birth to intense negotiation toward the European Council meeting in Maastricht in December 1991 where the final amendments were made. The IGC meetings in Maastricht were in praxis the last revision of the mandate, since the negotiations continued well into the European Council meeting. The discussion here was connected to the Spanish demand in steel and the Greek demand of transport licenses. This was also the moment where the EU acted most flexibly in the negotiating. This indicates that the EU is an intergovernmental institution that functions best when the European Council and the member states are in a close dialogue. Given the horizontal power, it is when the member states are working closely that solutions are most easily reached, due to the ability to compromise and force through agreements. This is again an indication of the strong ability of LI to catch the nature of the EU in these major negotiations.²⁴⁹

2) The EU gives more autonomy to the national leaders versus particularistic social groups within their domestic polity. The autonomy in trade negotiations are less than in institutional bargaining, but there is factors that will increase the autonomy, as well as possibilities to get solutions that would otherwise be more difficult to achieve. The nature of compensations is that the «winners» of an agreement should compensate the «losers». In strictly intergovernmental negotiations the consequences of these negotiations are more difficult to hide than in the EU. The EU budget can and often is used in order to compensate EU states in such circumstances. The budget is financed by all member states, and compensations taken from the budget will not have a national label. Although it is easy to understand which countries bear the cost of these compensations, it is difficult to say exactly how much each country gives. These financial assets are already delegated to the EU, so the concrete use of this money is easier accepted by the political environment in the EU states. Hence, the autonomy and flexibility to compensate in the EU is stronger than in a strictly intergovernmental regime.

The EU budget gives flexibility in compensations and increases the possibilities to create win-sets. However, it is important that major contributors such as Germany accept the use of the EU budget. As we can see, Germany, the UK, France and Italy were the biggest contributors right before the negotiations, while the agriculturally strong Northern countries and the Mediterranean countries are in average net receivers of payments. Clearly this

²⁴⁷ Nicolaidis 1993:234-5. See Hyde-Price 1996 and Heidensohn 1995.

²⁴⁸ Interview with Meisel.

²⁴⁹ The more routine parts of the EU are not analyzed in this thesis, and as many authors have described, the nature of these sectors is somewhat more supranational than the consensus agreements given the pooling of sovereignty.

would have been much more difficult if the major contributors in the EU were negative in their preferences toward a free trade agreement, but mainly this was not the case in the EAs, and is rarely the case in other trade policy negotiations since there is a correlation between wealth and the wish for free trade within the EU, (see table with net payments). The major problems occur whenever one of the major countries are negative toward the agreements, then it is less likely that the internal system of compensations will function. In these situations there will be tougher pressure on the external countries to compensate. Thus, the EU increases the autonomy, but only when the budget is available to be used as a financing asset. This will only occur when the major contributors accept such a solution. When the major contributors are negative toward an agreement, this possibility is weakened, and the win-set is more difficult to achieve within the EU; hence, the external actor will be more pressured. There is no reason to believe that trade policy compared to other issue areas gives less autonomy to political leaders than other issue-areas given the easily calculable effects these agreements have on the society.

5.4 Summary of Intergovernmental Bargaining

In the bargaining game within the EU, relative power is an important factor. Relative power stems from the intensities of preferences toward free trade between the areas, capabilities and strategies chosen. The instrumental procedure in the CCP, when it comes to association agreements, influences the EAs away from the equilibrium in an anarchy situation. The norms and rules, the indirect effects of action and the concerns of reputation influence the behavior of the states through their choice of strategies.²⁵⁰ This is not a revolutionary hypothesis, but merely a reflection of the trade regime that has developed within the EU which influences the agreements being made with these countries. The norms and rules of the EU are stronger than in other types of regimes. This is so because of the special decision-making structure and the supranational institutions of the EU. This is especially so in the case of EU trade policy due to the nature of CCP.

The conclusion from LI should be that EU bargaining within the norms and rules of CCP constrains the strategies of the member states even more than in the bargaining of institutional development (IGC). The reason is that IGC is more undefined, while CCP exist and have a list of rules that describe the process of negotiation with third countries. This list of rules is not without flexibility, but some options given under the LI are not available during the CCP. The choices of strategies are reduced in CCP compared to IGC. There were no possibilities of unilateral policy (opt-out) or exclusion. Two options; non-agreement and issue-linkages or compensations were present. The intensities of preferences were clear, and the relative power in the bargaining could be estimated roughly. Given the preferences found in the preference formation, it is clear that the threat of non-agreement was highly likely to be used. Hence the need for compensations either through compensations or issue-linkages were likely in order to get an agreement. The power to sanction compliance and enforce non-compliance had to come from other member states, and this power would be channeled horizontally and not vertically through the regime.²⁵¹

²⁵⁰ Nicolaides writes that «Counterfactuals can at best serve only as stimulating thoughts experiments.» However in the same section he concludes that «at the aggregate level it would seem that the existence of multilateral trade institutions in the West contributed to greater overall liberalization than if Eastern Europe had sought to reintegrate a world of pure anarchy and specific reciprocity». Nicolaides 1993:244

²⁵¹ Vertically power comes from the supranational elements, while horizontally comes from the other states. See Thomas Gehring 1995.

The external negotiations were marked by a strong asymmetry of power, partly because of capabilities, but mainly because of intensities of preferences. I have shown the strong position the EU had in the relationship with Visegrad. The Visegrad countries were regime takers in a degree that is unusual in international politics. Hence, the need for a separate analysis of the external negotiations is not strictly necessary. However, the presence of the external actor made it easier to achieve a win-set than in traditional internal negotiation. This was a factor that modified the reduced alternative strategies in the CCP compared to a strictly internal negotiation, and naturally increased the possibility of a win-set.

5.4.1 LI - Summary of Supply

The idea was to bring about the intensity of preferences during demand section, and then try to find the relative power among the member states. This gives a picture of the relative power and of the most probable outcomes of this bargaining in order to get a EU mandate. This, of course runs in advance and parallel with the external negotiations with the Visegrad states. The main question is then, to what degree can LI shed light on this process, and to what degree can it explain what happened? In my use of LI and institutional theory, I have found empirical evidence in support of LI's assumptions. Clearly, the findings follow the pattern of bargaining that was expected from LI. The liberal preference analysis indicated divergent preferences between the Northern and Southern EU members, this has been verified in the analysis of the negotiations. The use of strategies of non-agreement, compensations and issue-linkages was present and very much the tools of power apart from the more natural capabilities of the countries. The intensity of preferences clearly influenced the power, and showed that power is not only a question of capabilities, but also of strategies and intensities of preferences. I have described the EU, and CCP in order to understand the institutional influence of the EU toward their own member states and third countries. Clearly, this has revealed some of the strongest institutional rules that exist in any institution in the world. This goes beyond the view Moravcsik has on the EU as a regime, but never the less, it is possible and fruitful to use LI on the EU. One can point to similarities between EU trade policy and US trade policy. EU trade policy is very much a domestic issue. This is quite in line with Moravcsik's hypothesis that the domestic sphere has to be included in the analysis of IPE. The theoretical implications are that in the question of EU trade policy, it is no longer Putnam's classic two-level game; it must be described as a three-level game. Hence, the trade policy analysis of the EU demands a new composition of the theories we traditionally use in the field of trade policy analysis. There is no need for a *sui generis* theory. However, a mixture of domestic analysis, integration theory and IPE approaches is recommended.

The conclusion must be that LI functioned very well, with two exceptions. Its view of the EU as a regime is too minimal, and its view of the preference formation is too exclusive in the case of EU trade policy. In defense of LI, it must be said that its goal was not to be an exclusive theory of trade policy, but rather a theory of institutional development bargaining in the EU.²⁵²

The main critique of LI as an approach to the study of the EA negotiations between the EU and Visegrad is the exclusive view of the preference formation. LI as a theoretical approach to the EAs needs an understanding and inclusion of security policy in the field of trade policy. This will depend on the environment and the scope of the trade policy analysis that is chosen. However, the European Agreements were very special since the geopolitical/security situation in Europe after 1989 was unstable, and the EAs were the most comprehensive institutionalized relationship between Eastern and Western Europe. Furthermore, one has to be open for the possible combination of security and economic analyses, but it is not always necessary to include the former in the field of trade policy. As with the use of all theory, it will depend upon the context of the analysis. However, the strength of LI is the possibility of an expansion of the theory to include security and political aspects as well.

²⁵² Moravcsik 1993:473.

This will be the subject of the next chapter and will stand as the major modification of LI in order to give a better understanding of the outcome of the negotiations of the EAs.

Chapter 6.0 Political preferences in the quest for an association agreement with Visegrad.

«The twelve can't wait for the Soviets to become Victorians before reacting». Italy's prime minister Giulio Andreotti. ²⁵³

The purpose of this chapter is to argue for an expansion of LI to include a security preference analysis as well. I argue that it is necessary to combine LI with such an analysis in order to get the proper theoretical tool to be used in the analysis of the negotiations of the EAs between the EU and Visegrad. First there will be a theoretical discussion, then I will try to indicate the expected preferences among the EU states and the empirical facts that support these assumptions. The preferences from the political chapter should be combined with the economic preference formation in order to understand the intensity of the preferences of certain countries. Hence this is a widening of the Liberal approach of preference formation in LI.

6.1 Theories of Realism:

World politics is a conflictive and competitive arena in which the distribution of power determines outcomes. States are regarded as the key actors in this self-help or anarchic system. These interests are based on power considerations. Given the uncertainty from anarchy there is a constant concern for relative power position and national security.²⁵⁴ There is an assumption that security is the primary concern in foreign policy. Henceforth, goals arising from security interests should weigh heavily in Western calculations during negotiations with the East.

6.1.1 Traditional Approach

Traditionally security concerns were connected to military power. Thus there were/are strong reasons to be careful with distribution of profits and technology resulting from trade and the resulting surplus that could be transformed to increasing military strength. East-West trade was restricted partly by the autarkic tendencies of the East itself, but also partly by the restrictions on East-West trade installed on the Western side for reasons of security.²⁵⁵ This security policy influence in the trade was most clearly crystallized in the construction of the Coordinating Committee for Multilateral Export Controls, CoCom. The mere fact that East-West trade was far more important for the CMEA countries than for the EU members, provided Brussels with potential economic leverage over the CMEA and the Soviet Union in particular.²⁵⁶

The old position (pre 1989) can be described as this: there were restrictions because of the fear that trade could give the WP technology and economic surplus that could be transformed into a strengthening of their military power. However there were incentives to trade with some of the Eastern countries, because that could diversify

²⁵³ Van Ham 1993:154

²⁵⁴ Haus 1991:165

²⁵⁵ Van Ham 1993:37

²⁵⁶ Van Ham 1993:134

the WP. This was, for instance, the case with EU-Romania trade in the 1980s.²⁵⁷ This careful strategy with few trade concessions to a few countries, represented the old Realist position. Thus, East-West trade was restrictive and generally in favor of Western Europe.

However, the bipolar system was stable, but unacceptable. It was stable because of the cohesion it engendered in the two rival, antagonistic blocs, and because the nuclear standoff upon which it was based made the probable costs of any attempt to force change in the system disproportionate with the possible gains. At the same time, it was unacceptable as a status quo, especially to the people in the Eastern bloc and the BRD. The Eastern claim of self-determination became the triggering factor in the revolution of 1989. However, the underlying cause for the change in the international system has been the growing interdependence occurring in the global economy. As the process of transition in Eastern Europe seemed irreversible, and the new types of threat became clear, the trade strategy of the Western states should change according to the theoretical assumptions of Realism.

6.1.2 Traditional Preferences

Drawn from the traditional Realism approach, one should expect that after 1989 the Western countries were very keen on a speedy and wide integration of the Western economic and political institutions with the Visegrad countries. Hence, the power balance between USSR and the Western countries would shift even more to the advantage of the Western countries. A free-trade agreement right after 1989 would be a major impetus to the Visegrad countries in their effort to distance themselves from the USSR and the threat of a reversal of the disintegration process.

This argument was one among others, but still one of the politically most important arguments behind the idea of a new trade agreement between Visegrad and the EU. It indicated a will to strengthen the economic and political ties between the areas. The aim was to draw the countries of Central and Eastern Europe into a deepened network of economic interdependence and institutional multilateral cooperation. They hoped gradually to extend what Deutsch had described as «the pluralistic security community of Western Europe».²⁵⁸ EU was the most suitable institution to be used in such a strategy by the Western governments.

The political goal was to connect Visegrad to the West, not necessarily to give Visegrad a completely free trade agreement. Only when the political goal of integration was threatened by a lack of trade concessions, could we expect this political preference to influence the degree of trade concessions further than their «pure» economic preferences would indicate (Chapter 4). This could, for instance, be if Visegrad did not succeed in strengthening themselves in order to create a new «*cordon sanitaire*».

6.1.3 «Cordon Sanitaire»

An economic and political strengthening of the Visegrad countries would create a buffer, a new «*cordon sanitaire*» for the Western countries toward USSR. Hence the argument following the classical Realism thought would be to give them a benign trade policy in order to strengthen them in every aspect that would increase their military capabilities. It would be natural that this thinking would be strengthened as the years passed without a major reversal in the Eastern disintegration. This should indicate that the classical Realism thought would strengthen the idea of a favorable trade agreement toward Visegrad.

²⁵⁷ Van Ham 1993:137.

²⁵⁸ Van Ham 1993:31. See also Deutsch 1954.

This type of security thinking was of a rather indivisible security character, indicating that there was little difference in the preferences of the EU countries regarding this type of security threat. This was naturally because it was connected with nuclear or conventional warfare from the USSR, and such a conflict would have engaged all Western European states.

6.1.4 Quick Support, or «Wait and See»

Some would also argue that there could be a chance of a reversal of the process, making these countries go back in the Russian fold. It is important to remember that USSR troops were present in the area until 1993 (DDR), and that the decision to withdraw from Poland came only late in 1991.²⁵⁹ August 24, 1991, The Economist wrote that «in talks with the Poles, Soviet generals still behave as if they owned the place».²⁶⁰ The withdrawal from Hungary and Czechoslovakia was not fulfilled before June 1991. The presence of USSR forces kept an uncertainty in the West. Hence one argument was that the EU should be careful in giving these countries too good agreements, because that could strengthen the military capabilities of both the USSR and the other Eastern European countries in the future. The UK stressed that as long as the reforms in the Soviet Union were still highly unpredictable and most importantly not yet irreversible, the EU should have a passive policy toward the East. It was not wished to «fund the incompetence of the Soviet system». This line of thinking was supported by, among others, Kissinger.²⁶¹ However, this type of argument should be weaker over time as the reforms continued, and the USSR withdrew.

6.1.5 Germany and «Quick Support»

Germany represented an activist strategy to the East and argued that a «wait and see» approach by the EU could hamper the Soviet and East European reform efforts. In fact Germany set the pace in the East-West economic contact with USSR, with bilateral agreements that were heavily criticized by Western allies (the UK, France and the USA).²⁶² Italy's prime minister Andreotti supported FRG's actions in making the process irreversible through political and economic support. Andreotti said that «The twelve can't wait for the Soviets to become Victorians before reacting».²⁶³ This indicated the dilemma for the Western governments. They were careful because the military threat existed as before, and the process was reversible in their eyes. At the same time it was important to ensure that the reforms continued in order to secure the «main goal», i.e. the end of the bipolar system. Clearly the different strategies in the beginning show that the preferences of certain countries were more intense regarding the rapprochement to Eastern Europe and Visegrad.

As time went by, other EU members such as the UK and France also became more interested in new forms of cooperation with the reformist Eastern countries. By autumn 1989, Thatcher proposed that the EU should organize its relationship with the reformist Central European countries through the conclusion of association agreements. So by the end of 1989 the preferences seem to be to help the process of reforms as quickly as possible in order to secure the process from reversing. Thus, the negotiations of the EA seem to have mainly started because of political considerations. This is important to emphasize, also as a legitimization of the need for a political analysis in the theoretical approach to an analysis of the EAs.

²⁵⁹ Hyde-Price 1995:232

²⁶⁰ The Economist 24/8 1991:22

²⁶¹ Van Ham 1993:53

²⁶² Van Ham 1993:154. There were two types of criticism of Germany's actions in 1988. One, that it created old fears of German «Alleingang», remembering Rapallo and the Molotov-Ribbentrop pact. Second, that Germany set the pace of East-West conciliation by giving their allies several «*fait accomplis*».

²⁶³ Van Ham 1993:154.

As a consequence of the trust of irreversibility and because the military threat from these countries was heavily reduced, there would be a more sober economic analysis behind the trade policy. Hence the political influence on the East-West trade was weakened. But at the same time it was essential to ensure that the reforms continued; thus, one could expect extra concessions if that was perceived as necessary for the continuing of the reforms. To the extent that economic factors were dominating, the trade policy was influenced by the economic structure of the EU states. However, security issues could still change this picture, and indeed it did, especially on one occasion in 1991.

6.1.6 The Political Setback - The Moscow Coup

The august coup in Moscow did clearly illustrate the influence of security in the EU trade policy toward Visegrad. By July 1991 all actors in the EA negotiations had made a list of requirements that had to be fulfilled, and the negotiations were in a deadlock. From April there were problems with the negotiation of textiles, agriculture and the liberalization of labor. The negotiations stopped during the summer, and there were no signs of progress until August and the coup in Moscow.²⁶⁴ Following the coup the Commission got a third mandate in September that cut the «Gordian knot», and it was very much the disarray in the Soviet Union that cut the knot.

6.1.7 A Quick EU Response

In the end of August it seemed like the political will overrode the national constraint. The new mandate was a major push toward finalizing the agreement. The new mandate in the first days of September met all Visegrad demands. This showed the responsiveness of the governments when the political implications of their trade policies became highly visible. With the coup in Moscow, there was an increasing willingness in the EU member states to stand up against the trade lobbies.²⁶⁵ According to Polish negotiators, fields were discussed that were «out of the question before».²⁶⁶ The Economist wrote: «They may not know it yet, but Scottish raspberry growers and Spanish steel workers may be among the indirect victims of the failed coup. .. To bind Poland, Czechoslovakia and Hungary firmly into the West, the community now wants to hurry along the stalled negotiations for association agreements with them».²⁶⁷

It seems that the worsened security situation in Europe due to the coup in USSR in the end of August, lifted the political elite from the influence of the interest groups toward a more responsible policy. A quick integration of the Visegrad was thought of as a guarantee against reversals in the security situation. The EU now looked upon the Visegrad countries as a new «*cordon sanitaire*» against the threat in the East. This supports the security hypothesis about a new «*cordon sanitaire*» in Europe by using Visegrad as a buffer toward the USSR, and of course stabilizing the Visegrad area in itself. Even if the stabilizing of Visegrad was an argument in itself, it was without doubt the fear of the USSR that helped to trigger the new trade mandate. Hence, the security preferences connected to Realism seem to have mattered with the increased tension after the coup. Even the Mediterranean countries were influenced by this event by giving concessions in the new mandate.

One should not overlook the strong signals from Visegrad in their claims, since they had threatened to leave the negotiations before the coup, but the dramatic EU response with the third mandate indicates that the security argument definitely had a role. Nicolaides is very clear in his analysis of the events after the coup: «Only with the

²⁶⁴ The august coup in 1991 was a desperate attempt to preserve the old structures of Soviet power, but in the end it only precipitated the final demise of the USSR.

²⁶⁵ Nicolaides 1993:216.

²⁶⁶ Nicolaides 1993:232.

²⁶⁷ The Economist 24/8 1992:21.

failed coup attempt in Moscow august 1991 and the disarray that ensued in the Soviet Union did political leaders in Western Europe express a newfound political concern for Eastern Europe to overcome protectionist lobbies. Soon after the August coup, the Commission, strongly backed by the Dutch presidency of the EU, put before a meeting of foreign ministers a draft proposal for accelerating the rapprochement with Eastern Europe.»²⁶⁸ The Economist wrote: «Jacques Delors, the president of the Commission, told the emergency meeting of EC foreign ministers on August 20th that their governments must put their money where their mouths are, and open up to the East Europeans. ... However, from the East Europeans point of view, the coup may turn out to have crumbled to soon. The community's concern to protect its own industries may before long again outweigh its concern for the ex-communist east.»²⁶⁹

6.1.8 Situation Stabilized and Renewed Protectionism

One other indicator of this influence by the coup was the French reversal when the situation in the USSR stabilized. The situation in Moscow stabilized after two weeks, and the French threat of veto came soon after. Suddenly the French could not accept concessions made in the agricultural sector, which they earlier had accepted. There was no coincidence that the quick consolidation in Moscow was followed by a French veto. «At that point the French government was facing strong protests from domestic meat producers, in part because of cyclical pattern in the meat market and in part because of earlier increases in meat imports from the East as a result of the post-1989 concessions.»²⁷⁰ France, Belgium, Portugal and Ireland vetoed the proposal,²⁷¹ and the beef quotas had to be reduced. This made Poland withdraw from the negotiations. Belgium, Portugal and Ireland were merely following their preferences, but did not have the ability to stop an agreement alone, so when France threatened to veto they followed swiftly. Hence the key to the solution was France. The French political elite was gripped by their interest groups again, and there had to be a compromise (compensations) either internally or externally. The Economist described the events like this: «These days it is no longer just Britain that holds up EC business. Last week France decided it was more important to protect its own beef farmers than to ease import restrictions on Eastern Europe and thus save the community's talks on association with Czechoslovakia, Poland and Hungary. ... Uffe Elleman-Jensen accused the French of «living on another planet», while Poland threatened to boycott the talks. France will probably have to retreat.»²⁷²

There was political pressure from the Commission, from the Dutch presidency and other members. «Uffe Ellemann-Jensen described the Mr. Van den Broeks's decision to allow France to delay EU concessions on farm imports from Poland as pathetic».²⁷³ The community's interest was to make the agreements with all three Visegrad countries at the same time, so both Poland and France were persuaded to make concessions.²⁷⁴ The solution came 30 September, and is known as the triangular trade agreement. The EU gave credit to Visegrad agricultural products in order to export Visegrad products to the USSR. This was an issue-linkage between the association agreement and the triangular trade. This would compensate the lack of export to the EU given the strong EU restrictions. At the same time, the EU helped the trade between the Eastern countries. However, the whole agreement was a disappointment.²⁷⁵ Hence, France got their protection, while Visegrad got concessions from an issue-linkage to their trade with the USSR.

²⁶⁸ Nicolaides 1993:225

²⁶⁹ The Economist 24/8 1991:21.

²⁷⁰ Nicolaides 1993:226.

²⁷¹ Portugal, Belgium and Ireland were hiding behind France's most vocal opposition. See Nicolaides 1993

²⁷² The Economist 14/9 1991:32.

²⁷³ The Economist 5/10 1991:32.

²⁷⁴ Brada 1993:337.

²⁷⁵ The EU agreed to increase their import quota from Visegrad, but the amount sold to the USSR from Visegrad with EU credits, would be subtracted from this quota. Hence the increase would be between USSR and

The events indicate the influence of the security in the question of free trade. The security situation motivated the EU (France) to give concessions they otherwise would not give, but as soon as the situation became normal, then the interest groups took command over the preferences. That this happened in France, Ireland, Belgium and Portugal were no surprise given their economic structure in agriculture. This indicates that security has the ability to strengthen the autonomy of the governments versus the interest groups, but as soon as the military threat weakens, the economical preferences took command over the agenda, and the pattern of compensations was similar to last chapter, with internal and external compensations.

6.2 New Threats or «Risks»

For policy makers and academic strategists during the cold war, the nature of security was unproblematic. Security was smoothly defined as the absence of war. By the end of the 1980s this view was increasingly challenged. Three factors could explain this challenge to the traditional security notion: First, the emergence of a broadened security agenda was a challenge to the strangle-hold military issues had on the security agenda. Economic issues, human rights, and environmental concerns all began to appear as legitimate security concerns. Secondly, the common security and reduced value of military power in the international relations.²⁷⁶ Thirdly, security did not apply merely to the state, but to individuals whose security might be threatened by the state.

6.2.1 Widening of Security

The term security has been widened to include environment, migration, criminality, and regional/ethnic conflicts. New security considerations accompanied a widened security definition, and needed other strategies to be constrained. «The contemporary security agenda is increasingly concerned with the economic, political, societal and environmental causes of insecurity - for example, economically motivated migration from the East; drug smuggling and transnational crime; and crossborder pollution and environmental degradation.»²⁷⁷

This has stretched the traditional notion of security, and led to an increasingly multidimensional understanding of the nature of international security. This can be understood with the increasing use of the word «risks», compared to the older «threats». Hence the challenges of a newer type are often termed «risks» instead of the older expression «threats». There is not necessarily one clear defined actor that is «threatening» a state's vital interests, but a mass of risks coming from economic and political decay in these former communist regimes. The best strategy to avoid these risks would be to strengthen the political and economic development in these countries. Trade policy is well suited as a tool for economic development in these areas, as a strategy for the stabilization of these countries. Hence one could expect that countries facing such types of risks to be more willing to give trade concessions to the Visegrad as an investment against these «risks».

6.2.2 Perceived Threats

As time passed these new security threats became more apparent and perhaps also more decisive in the process of an EU trade policy. Their theoretical basis lies in what is often termed Post-Modernist thinking. These are threats that came forward as a consequence of the newly won independence of the East European states. The Visegrad

Visegrad, not the EU-Visegrad as thought in the beginning. Again an example of issue-linkage. Van Ham 1993:199.

²⁷⁶ McInnes 1993:74-75.

²⁷⁷ Hyde-Price 1995:228.. See also Clesse, Cooper and Sakamoto «The international system after the collapse of the East-West order. Chapter of «Post-communist challenges» by Bronislaw Geremek 1994.

countries were struck by these types of problems. New types of security threats were connected with Eastern Europe's political and economic decay, Praetorian states, criminality, regional wars, pollution, immigration and nationalism. This was confirmed by *The Economist* on 17 November 1990: «Nobody is afraid at the moment of a formal, government ordered attack by the Soviet army in to Eastern Europe. The worry is about the overspill of chaos: appeals from across the border for food, medicine, even physical protection; a flood of refugees; perhaps one armed gang chasing another across the frontier».²⁷⁸

There are two big risks of open conflict in Eastern Europe. First the unsatisfactory or contentious nature of the borders in Eastern Europe. Secondly that these borders do not always coincide with the national groupings.²⁷⁹

Nationalism increased the risk for conflicts occurring Inter and Intra the existing national borders. This happened in Yugoslavia, but there was also a risk for conflicts in Czechoslovakia and Hungary. Especially the huge masses of Hungarian people in Czechoslovakia, Yugoslavia, and Romania could inflame the whole region. Criminality was strengthened by a legitimacy crisis in the existing police corps given the lack of support to the existing regime, and of course, the general economic problems. The economic difference between East and West gave huge incentives for the developing of organized crime.

Democracy was extremely vulnerable in this situation. All of these factors could destroy a democratization process, creating Praetorian regimes that would be a security threat to neighboring countries in the near future. As mentioned, there were also environment threats because of a backward industry that lacked technology and capital in order to be adjusted to Western levels.²⁸⁰ It was clear that if these countries were left to themselves, there could go a long time before these problems would be solved. In the meantime the neighboring countries would pay the price of this political and economic decay that created this new type of threat to the EU states. These types of threats became more direct as a consequence of the erosion of the Iron Curtain. The fact that there were no restraints from the Eastern countries in their attempt to create integration between the areas, created an incentive for the Western area to protect themselves from these new types of threats, threats which mainly can be described as a consequence of the wide gap in the living standard between the areas. As an example, Swedish estimates in 1990 predicted that 5-6 million people would try to flee from the Soviet Union in the period from 1990 to 1992.²⁸¹

Economic issues have clearly achieved new prominence because of this development. Instability in Eastern and South Eastern Europe are clearly related to economic problems currently being experienced by former communist states. «Economy may not be the sole source of insecurity there, but it is clearly an important, if not the single most important security problem».²⁸² Economic growth was seen as one of the most important solutions to the threats to the West. Growth would reduce incentives for migration, criminality, pollution and regional conflicts.²⁸³ Another solution would be to integrate their fragile political regimes with the Western institutions. The European agreements had elements both with trade agreements and the structured dialogue, which gave Visegrad formalized links with the EU.

²⁷⁸ *The Economist* 17/11 1990:30.

²⁷⁹ McInnes 1993:79.

²⁸⁰ Especially the nuclear power program of the Visegrad See *Nato Colloquium* 1993:252-253.

²⁸¹ *The Economist* 1/12 1990:27.

²⁸² McInnes 1993:82.

²⁸³ Linkage between regional conflicts and economic growth is unclear.

Eastern Europe failed economically because of a lack of creative resources, not of natural resources. This situation has been recognized by the West with its commitment to economic aid to these states.²⁸⁴ In coping with these threats, economic means of statecraft seem likely to become increasingly influential: The EU and the USA sought to provide economic resources to prevent chaos in the East and economic incentives to promote democracy, or at least moderation, there.²⁸⁵ This aid was not altruism, but of the realization that the economic problems of the former communist states affect the total security of Europe. Western security was connected to the stability in the East, which in turn was connected to the economic development. There was a growing interdependence between security issues - military, economic and environmental.

Thus, following the Realist argument that security concerns will dominate foreign policy, the effect would be that, as the grip of the USSR loosened, the type of threat and the strategy to resist threats changed. All in all this established pressure for the EU to become a benign hegemon in the negotiations with the Visegrad countries. As the process of disintegration in the East developed, the more granting the EU should be in its negotiations with the East. This could be specified even more clearly by introducing another variable in this hypotheses, the geography.

6.3 Geopolitics

Geopolitics is traditionally seen as a doctrine followed by states, and it has a normative character. Geopolitics has many definitions. Common for them all is that they emphasize the importance of geography in the formation of policy, especially foreign policy. Geopolitics is used as an interpretation of history and geography, with the purpose of developing laws about spatial relations.

It can be described as a branch that tries to explain and predict political behavior and military capabilities on the background of the physical environment of the human being, or as «A method of foreign policy analysis which seeks to understand, explain and predict international political behavior primarily in terms of geographical variables, such as location, size, climate, topography, demography, natural resources and technological development and potential. Political identity and action is thus seen to be (more or less) determined by geography.»²⁸⁶

6.3.1 First Law of Power

A factor often neglected, is the first law of power, which introduces the idea that power weakens over distance. Power has a spatial element in that the actors always stand in a spatial relationship to each other and that power is reduced over distance. Boulding describes this as a «loss of strength gradient». This argument will support the power assumption, that the EU has substantial influence in CEEC due to the close geographical relationship between the EU and CEEC.

²⁸⁴ The Western European state were quick with organizing help to the Eastern European states. PHARE - Polish Hungarian aid restructuring economies - came in 1989, and the main objective was to give food supply, access to the EU market, access to EIB, transfer of know how and help the environment. See Van Ham 1993.

²⁸⁵ Keohane & Hoffmann 1991:404.

²⁸⁶ Evans and Newnham's dictionary of world politics

However, I expect to find that this geopolitical dimension has an effect that is opposite from the main thesis that the EU is protectionistic due to the amount of external compensations.²⁸⁷ Even though geography strengthens the idea of the EU's strong power given the distance, it also introduces security threats to the EU, such as traditional military threats and threats like migration, criminality, environment and regional conflicts. Threats that will increase the need for a political influence on the economic policy, enabling the decision-makers to lift their eyes above the narrow interest of the producer groups. This effect will depend upon the intensity of these threats. The linkage between security and trade policy is in line with Buzan's argument of the increasing connection between security and international economy.²⁸⁸ My point is that one cannot fully understand the EU's policy without taking into consideration the security threat; a security threat which constrains the mercantilism of the EU.

6.3.2 Geographical Sensitivity

The interesting fact is that this new type of risk is more sensitive to geographical factors than the traditional security threat. The reason is that the threat from these risk-related security issues seems to follow the logic of the first law of power. The risks lose strength relative to geographical distance. Thus, my argument is that this is a major factor behind the increasing divisibility of security in Europe after 1989. All the countries experience such types of risks, but not only from Eastern Europe. The risks from the south toward the Mediterranean countries (Spain, Portugal, Italy and France, while Greece, in addition, had the Balkan conflict in mind) were just as strong as the Eastern ones for e.g. Germany. Also some countries like Ireland and the UK were more distant from both of these risk areas.

6.3.3 Divisible Security

Hence, European security has become more divisible. Regionalism has strengthened, and created a slightly different security picture for Denmark than e.g. for Spain.

The practical effect of this argument in my thesis is that we can expect a difference in security preferences in the question of an association agreement between Visegrad and the EU. The Northeast of the EU will be much more concerned about the security effect of the EAs than the rest of the EU. These kinds of security risks are more divisible than the Armageddon type of threat conventional warfare would create.

For one, Ireland is less exposed and concerned about these risks from the East than is Denmark. Secondly the EU also borders on another group of countries that give the same type of threat, the Maghreb area. The

Mediterranean countries experience common security threats (migration, regional conflicts, environmental).²⁸⁹

The Mediterranean EU countries were just as concerned with this type of risk as the Northern countries were with the Eastern risks. This creates a resource conflict within the EU over which area should receive most support from the EU.²⁹⁰ As a result, one could expect the Southern countries to be even less willing to give priority to the Visegrad area than for instance, Germany would be, in order to get more resources to meet their southern risks.

²⁸⁷ Of course the first law of power also supports the argument of the asymmetrical power used in the economic preferences, that given the asymmetrical power between the actors in the negotiation, the Visegrad countries are forced to take the costs of compensations to the EU interest groups.

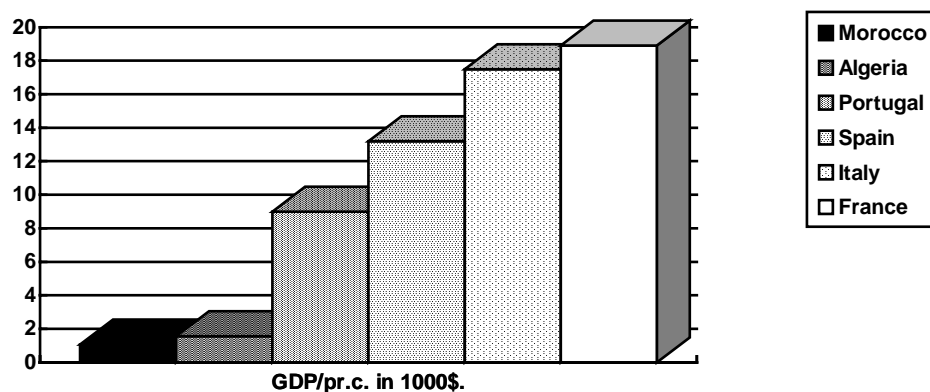
²⁸⁸ Buzan 1994:99.

²⁸⁹ Hyde-price 1996:23.

²⁹⁰ These resource conflicts have continued after the EAs, and in the Council meeting in Cannes. There has been struck a deal within the EU over this conflict of interest (East vs. South). See «Fakta om EU», Nr. 7 1995.

This has the effect that Mediterranean countries press for stronger trade concessions to the South, while Central-Western Europe is more concerned about Eastern Europe. It is harder to legitimate extra trade concessions to Visegrad for the Mediterranean countries, than it is for Germany. Hence, security preferences in the EU trade policy to Visegrad differ depending on their regional security structure. Thus, geographical position divides the EU states in their security preferences. This can be illustrated by some statistics.

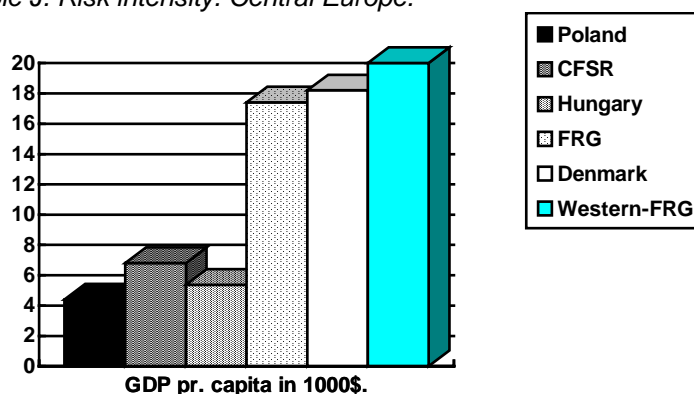
Table I. Illustration of economic difference in the Mediterranean.



Numbers from 1992 (some est.) collected from «The World Factbook 1994-95»

As we can see, the economic gap between the geographically closely connected areas was quite huge. The living standard in France was eight times larger than in Algeria, and in Spain it was ten times larger than in Morocco. When we connect this to a strongly increasing population²⁹¹ in the two North-African countries then we understand the worries of both Spain and France connected to economically related risks. This was confirmed in The Economist on 27 April 1991 where they describe Spain as the champion of the EU's poor countries and as a bridge-builder between the Community and North-Africa.²⁹²

Table J. Risk intensity. Central Europe.



Numbers collected from «The World Factbook 1994-95».

²⁹¹ Morocco had in 1993 a birth rate of 29,23 per 1000 inhabitants. Their death rate was 6,56. This gave them a yearly increase of 21,6 people per year in a population of 1000. In their population of roughly 28 million that indicates a yearly growth of 604 800 in the population. The numbers for the European states is about an increase of 1-2 person per 1000 inhabitants. «The World Factbook 1994-95». See also «Statistisk Årbok» 1991.

²⁹² The Economist 27/4 1991: 34.

The statistics of the living standards in Central Europe point to the same type of relationship as in the Mediterranean. Living standards in FRG and Denmark were about 8-10 times higher than in Central Europe. This was of course an indicator of the economically related risks that could influence FRG and Denmark's position toward a trade agreement securing free trade toward this area. The geographical pattern was clear. The EU had two main threat areas in the period of 1989-91, and they were Mediterranean and Central Europe. Excludes Southeast Central Europe which comprises Greek and Italian relations to the Balkan and Eastern Mediterranean. In order to delimitate my thesis, I have also avoided the old USSR. The Mahgreb countries illustrate the main point, that the argument of giving a benign agreement toward Central Europe had to be seen in relationship with other types of similar security threats for the EU, indicating the geographical influence in the preferences of the EU countries, and the divisibility of the new economically related threats. Although this pattern is verified in the preferences toward the EA agreement, it is difficult to estimate its influence because it is analogous and overlapping with the economic preferences. The security preferences and the economic preferences reinforces each other. For the Northern countries, both the economic and security preferences were positive to a free trade agreement with few restrictions. For the Southern EU countries, both the widened security argument and the economic preferences indicate an agreement with many restrictions. Only the classical security argument will influence the Southern countries in a more positive direction toward a free trade agreement with few restrictions.

6.4 Other Political Motives

There were also other types of political considerations of importance. These are more divisible and connected to special EU states given their specific security preferences, and have been more or less kept down by the bipolar system. I will here present some of these preferences in connection with the most important EU states.

6.4.1 France - Fear of German Dominance

France²⁹³ was most explicit in expressing its reservations toward the prospective Eastern European membership in the community for fear of seeing the center of gravity of Europe move toward a traditional German hinterland.²⁹⁴ This type of reasoning could go both ways. One could say that keeping the Visegrad distanced would keep the center of gravity of the EU closer to France, but it would probably weaken the EU, and it would probably make Visegrad even more dependent upon Germany given their geographical and functional position both in economy and security questions. The other alternative was to bring them quickly into the EU regime. This would make German investments and political influence more constrained by the EU system. This would be in line with traditional French policy toward EU integration, favoring the type of integration that increases the French influence in Europe. Hence, French security considerations in this question would indicate a need for an agreement with Visegrad. It does not necessarily mean a benign agreement, but indicates that the relationship with these countries should be organized through the EU, and not through bilateral relations. This favoring of EU integration goes back to 1989 when France tried to prevent German unification but failed, and France fell back to the use of EU as a control of Germany. Mitterrand argued that the prospect of German unification called for

²⁹³ This fear of German dominance and «drang nach osten» is definitely shared by countries other than France. France is fronting this group, and is the main architect in the efforts to bind the new Germany toward the EU, by developing the EU to the new situation after 1989, with a unified Germany and a new Eastern Europe. Many have pointed to the Maastricht treaty and partly explained this by the German unification.. See Van Ham 1993:162-163.

²⁹⁴ Nicolaides 1993:219

«strengthening the structures of the community», or as Moisi argued «Either we'll get a strong Germany within a divided Europe, or a strong Europe and within it a powerful Germany».²⁹⁵ Thus, French security motives should be to organize the new relationship with Eastern Europe through the EU. An association agreement with Visegrad would then be wished as soon as possible from France in view of their security interest. However, France's political elite had to battle strong interest groups, so the compromise would be to get an agreement as soon as possible, but an agreement without great concessions in the areas where French economic interests were strong. The political order of Western Europe, represented by the EU should expand eastwards in an effort to control the development. Hence the need for political elements in the EAs should be explained. This is exemplified by the structural dialogue which gave an institutional link between Visegrad and the EU. So French preferences were not only connected to economic integration but also to political integration, as a means to secure French influence and restrict German «*Alleingang*». An early enlargement, however, could jeopardize vital French interests concerning the strength of the EU and important elements as CAP.

6.4.2 The UK - Fear of a Strengthened EU

If French preferences were influenced by the fear of weakening the EU, then the UK preferences were the opposite. The UK was suspected by its EU partners of supporting speedy widening in order to dilute the integration.²⁹⁶ This meant that they were in favor of a free trade arrangement with institutional arrangements in order to water down any supranational tendency within EU.

Clearly, quick integration would be a threat to the institutional strength of the EU. At the same time it could be interpreted as a new boom for supranational cooperation giving the EU more legitimacy. Another group of positive members toward integration would then participate in the institutional development weakening the UK's position. However, it seems that the UK felt that they could even more easily hamper supranational tendencies in a widened Europe, and theoretically it should be harder to get deepened integration with more members in the EU; thus, supporting this argument.

This attitude does also corresponds with the fear-of-the-USSR argument. Hence, they should give Visegrad a connection to the West as quickly as possible. This is very much in line with traditional British security policy. It must also be stated that the UK would be positively affected by free trade toward the Visegrad countries given their complementary economies. «For the UK its relatively scanty trade relations with Eastern Europe made a free trade stance much easier» (see table 3).²⁹⁷ It would be probable that motives like security meant more for the UK in their preferences toward EU trade policy toward the Visegrad countries given the more benign interest groups. Hence the autonomy of Thatcher could be expected to be stronger than in other EU countries. This is also verified by the fact that Thatcher was one of the driving forces behind the idea of the EAs with Eastern Europe. (see Chapter 2).

6.4.3 Germany - A Strong EU

BRD wanted a strengthened EU. Their wish for integration was in line with French preferences in the question of widening. However, BRD have emphasized the need for internal reforms in order to secure the ability of enlargement without «watering down» the EU. Hence they have been the strongest advocate for an increased supranationality within the EU. When it comes to their security preferences they were, of course, concerned with traditional threats, but also in a stronger way with the new «risks» that came as a consequence of the political and economic disintegration in Eastern Europe. The economy preferences were very strong toward free trade as indicated in chapter 4. Hence, both political and economic preferences pointed to strong political and economic

²⁹⁵ Both citations are collected from Van Ham 1993:163.

²⁹⁶ Margaret Thatcher is a prime exponent of this view. Hyde-Price 1996:218. See also her autobiography p. 769-770. «The Downing Street years».

²⁹⁷ Nicolaides 1993:219

ties with Visegrad. However, they hesitated in taking the lead in the EU's dealings with the Eastern states at a time when its own reunification placed strains on internal EU politics.²⁹⁸

6.5 Summary of Security Preferences

The EAs are influenced by security/geopolitical motives. Where geopolitics has importance economic considerations will be subdued by security considerations. However, some of these security considerations comes from a new type of threat, not from military strength but from economic weakness. The security threat perceived is of two types:

- 1) Always ensure that your country has the upper hand, it means relative gains in favor of the West. The EU would give concessions to divide the former WP, but hold back real free trade until the military threat is weakened. If the EAs are perceived to strengthen Visegrad autonomy from the USSR, then this will pressure the EU to give more concessions in order to seek an agreement. Loss of relative gains toward Central Europe will be accepted, because the security threat from the USSR is perceived as more vital, and trade concessions will be swapped against increased classical security. This was exemplified with the August coup in Moscow.
- 2) Give the neighbors preferential treatment, as an investment against perceived threats such as migration, environmental breakdown, ethnic and regional conflicts and criminality. Instead of huge sums invested in military equipment that will not be able to stop these types of threats it would be security maximizing to divert resources to economic types of measures (trade concessions). However, this argument relates to other neighboring areas as well, and represents a more divided security preference within the EU than the former hypothesis. Closely connected countries will compete for the resources to their local target areas. The effect of this hypothesis is also difficult to estimate given its strong correlation with the economic preferences. This correlation is due to the geographical sensitivity of the risks; a sensitivity which is also present in trade.

These hypotheses must be viewed in combination with each other, they are not viewed as a zero-sum game. However, hypothesis two is less likely in a situation with a strong military threat. Which of these hypotheses was influencing the negotiations most, would be dependent upon the degree which Western politicians felt that the Eastern countries disintegration was reversible in the first period after 1989. The perception of reversibility was, as presented earlier, strongest during the coup in Moscow.

²⁹⁸ Nicolaides 1993:219.

Chapter 7.0 Toward a Conclusion.

«As they (Visegrad) see it, the fate of their fragile democracies hangs in the balance against the fate of Irish potato growers!»²⁹⁹

The pre-1989 competition situation in the political and economic spheres seems to have continued in the economic affairs, while security policy has been influenced by a drastical change toward integration and an increasing security community giving a more benign effect on the trade policy than earlier security considerations. However, both the economic and security preferences will vary with geographical and functional position compared to the Visegrad countries.

I have shown that the EU has clear measures to limit the free trade whenever their interests are threatened. There is a substantial level of protection in sensitive sectors built in to the EAs; they maintain a number of NTBs, and they include numerous ill-defined safeguard procedures, strict rules of origin, and even voluntary import minimums for Visegrad import. These provisions have the ability of creating managed trade. This has a decisive impact on Visegrad because of its common policy and the importance of the EU market. Hence, uncertainty is created for Visegrad, and this could have a trade diverting and FDI diverting effect. However, this is hard to prove because its effects are mostly *ex ante*. Nevertheless, the optimism in the Visegrad countries has shifted to a more protectionistic mood, after the lessons they learned from the EU and the negotiations.

The EU's ability to pursue a trade policy is very much present. The EU has the capacity and the will to use trade as leverage. Treating the EU as a unitary actor in trade policy is possible, but the character of the EU as a regime makes it important (necessary) to have a domestic understanding of the EU as an actor. This forces us to expand Putnam's two-level game to a three-level game, introducing both the interest groups (sub-national level) and the state preferences to be analyzed with the negotiations controlled by the Commission.

Moravcsik's use of regime theory as a description of the EU, may be criticized for being too general, but at the same time it will win in generality toward other cases of similar nature in the future e.g. NAFTA and ASEAN.

The theory is flexible enough to be used in many types of studies ranging from institutional development bargaining to trade negotiations and other regimes of similar character. Its use in trade negotiations includes an external actor; this demands some modifications to the theory.

However, the strength of LI lies in its understanding of the EU and its combination of analysis on several levels, given the combination of a liberal preference analysis and an intergovernmental analysis of the bargaining within the regime (the EU). Such a combination gives us a liberal preference analysis which can be used to understand the economical motivated preferences among the EU states. This is combined with an understanding of the regime and the bargaining in the EU in order to achieve a common policy. Since LI is meant for an analysis of intergovernmental bargaining within the EU, the issue-field must be changed to EU trade policy. This is done by an introduction of CCP and a concentration on the trade related concerns in the preference analysis. In the

²⁹⁹ Nicolaides p.232.

bargaining the strategies available are fewer than in the IGC, but the presence of an external actor increases the options concerning compensations. The compensations used at the cost of the external actor are nothing less than actions working against the nature of free trade, or in other words, protectionism.

The process of reaching an agreement is difficult mainly because of divergent preferences, but also because of the nature of the CCP decision making structure. These obstacles toward a free trade agreement are similar to the difficult decision-making structure one experiences in the USA, but the divergence of preferences in the USA will never be as strong as in the EU, thus the EU goes further in its inability to create pure free trade with its neighbors. The divergence of preferences in trade-related issues is not only connected to functional and rational arguments concerning the economic structure, such as liberal theories often propose, but is also connected to security related questions, or what often is termed «high politics».

My argument is that in the analysis of the EA trade agreements the preferences should indicate a security policy check in addition to the economic preference analysis. It is important to have an eclectic approach in such an analysis, primarily because the mixture of economics and politics is stronger than during the cold war. During the cold war, either Realism (East-West) or Liberalism (Western) had its place in separated domains. Today the zones are more blurred. Still, my emphasis on security politics in the study of the EAs is no decisive break with the nature of LI. The LI theory is easily expanded to such an analysis with a new preference analysis in addition to the Liberal preference analysis.

The security preference analysis indicates that the divergent preferences from the Liberal preference analysis are reinforced by a similar geographical pattern. The geographical patterns of the countries that are most positive and those that are less positive to an agreement are rather similar. In the Liberal preference analysis, we found a geographical pattern that was repeated in the security preference; a North -South (periphery) conflict in the EU over the trade policy toward the Visegrad countries both in economic and security preferences. Hence, the divergent preferences reinforced each other in the sectors of security and economy.

The problem lies in the divergent economic structure and in geopolitical vulnerability. As Buzan³⁰⁰ points out, these aspects are increasingly intertwined. After a liberalization in trade the central parts of the EU made positive gains in both security and economics. For the periphery much less was gained. The Northern countries were more positive toward a benign free trade agreement than the Southern countries. Free trade, from the view of the Southern countries, was threatening their economic structure, and at the same time taking resources and focus away from their problem area - the Mediterranean. This points to a congruence between economic policy and security policy that is quite new in recent European history. The fact that the spread of economic wealth can be used as an act of security gives us a new pattern in both the traditional trade policy and the traditional security policy conducted by states. However, the divisibility of these security related questions divides the preferences among the EU members by their functional and geographical position.

As I have indicated, it seems as though the negative and positive preferences toward free trade reinforce each other in the question of the EAs, indicating a very difficult bargaining for Visegrad. When we combine this divergence with the institutional influence of the CCP, then we understand the obstacles the EU had with its

³⁰⁰ Buzan 1994:99-100.

attempt at creating a free trade agreement with Visegrad. The degree of protection in the sensitive sectors is an indication of these problems.

When one, due to the CCP, connects these divergent interests with a common trade policy, conflict is the result. The natural consequence is that the weakest part will pay the price. When this was combined in the foreign economic policy of the EU, there had to be a win-set of these twelve countries. The compromise was hard to find and the weakest part in this case was the East. The more bonuses the West could get from the East the more compensations could be spread in the EU. This must be moderated by the security threat and the fact that certain Western countries promoted this argument. As in most policy formation, there were balancing forces, and in this case Visegrad had to accept that the power asymmetry created a deal which they had not expected. They were newcomers to the capitalist system, and it did not function the orthodox way, as they believed. Arguments such as political instability, protection of democracies, and «active leadership» (the EU) were used by Visegrad and their promoters. However, these political arguments were, of course, constrained by the economic interests among the Western actors.³⁰¹ Political will and institutional adaptability do not always override the constraints of domestic policies. As one EU official stated; «As they (Visegrad) see it, the fate of their fragile democracies hangs in the balance against the fate of Irish potato growers!»³⁰²

There are also other preferences concerning the power balance within the EU, and regarding the future of the EU, which influence the preferences toward the EAs. Both Germany, the UK and France have strong preferences regarding the configuration of the EU, and the EAs also influence this configuration at the present, and in the future. They all supported an agreement, but the degree of free trade and the question of enlargement created some divergence between these three actors. In the degree of free trade, France was most reluctant due to its economic structure (agriculture). In the question of enlargement, France and Germany were more skeptic given the need for reforms in the EU.

When we summarize the three different analyses, the liberal, the security and the institutional, we can understand the outcome of the negotiations. The obstacles to free trade were mainly an effect of the economic preferences. These preferences survived the bargaining because the institutional setting made it easy for the negative countries to influence the outcome due to the consensus model. The strategies to persuade the negative countries are few, and the easiest strategy in this case due to the power asymmetry was the external compensation. This was exemplified several times during the negotiation, and was the main reason why the EU's sensitive areas were either kept out of the agreement (agriculture) or treated with long transitions and several safeguards (especially chemical, steel and textiles).

The most important variable supporting free trade was security. The classical threat from the USSR was so strong, especially during the coup, that there were incentives to give Visegrad a more benign agreement. This was the case when all of the unsolved problems suddenly were solved in the immediate aftermath of the coup. An especially strong example are the observation of the regrets of the French concerning their concessions, as soon as the coup was hampered. However, this effect was also somewhat disturbed by the divisibility of the widened security definition, and the geographical sensitivity of this definition. Hence, the main explanation behind the

³⁰¹ Winters 1992:212.

³⁰² Nicolaides 1993:232.

outcome of the agreement was the economic structure of the EU member states and the nature of the EU as regime, forcing the member states to find a common solution to these types of trade agreement. This makes me think of the notion «the differential of contemporaneousness» introduced by Pollard³⁰³ in order to explain the spread of industrialization in Europe in the 19th century. The phenomena (industrialization) struck the whole of Europe at almost the same time, but the local factors needed to utilize the phenomena (contemporaneousness) were different. Hence, some areas/pockets succeeded in their industrialization, while others failed. The analogy is that the Eastern disintegration struck all the EU countries at the same time. The EU countries had different abilities to respond to the phenomena, but this time they had to adopt a common response. Hence, the EU's differential of contemporaneousness toward East-West integration was under political control. This presence of political control stemming from the EU is the major difference between the 19th century and the 20th century in Europe. However, this is also the explanation why these restrictions in the East-West trade exist. It is easy to point out the obstacles the EU regime creates for the integration of the Eastern countries, but it is important to remember that the EU has given the Eastern countries political stability, and something to build their model on, as well. Furthermore, if this thesis has criticized the EU concerning the negotiation and outcome of the European Agreements with Visegrad, it must be emphasized that there are aspects of the East-West relation other than trade policy. It is also important to emphasize that the structured dialogue in the EAs in the long run, has been more important than the specific trade rules. However, the negotiations of the EAs in 1990-1991 were more concerned with the directly economic questions than with the questions of political integration; perhaps an indication of the nature of the EU.

³⁰³ See Pollard 1981.

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